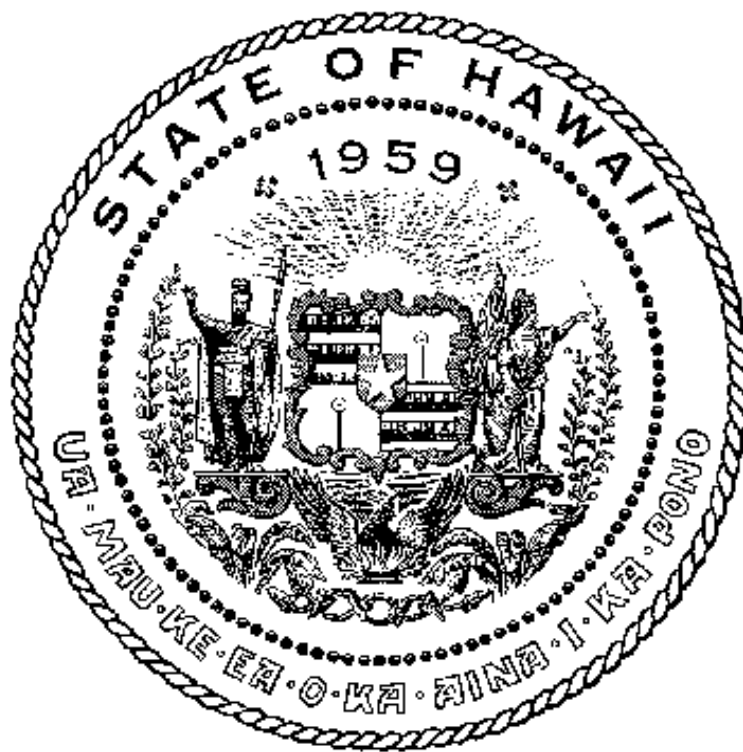


DEPARTMENT OF TAXATION STATE OF HAWAII



ANNUAL REPORT 2001-2002

October 22, 2002

Dear Governor Cayetano:

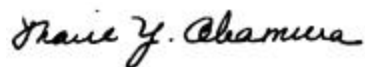
It is with pleasure that I present to you this summary of the activities of the Department of Taxation for the fiscal year ending June 30, 2002.

Now in our third year of partnership with American Management Systems (AMS), the five-year Integrated Tax Information Management System (ITIMS) project has made remarkable progress. Extensive training and user acceptance testing of the income tax module to replace the aging CNIT (Comprehensive Net Income Tax) system were well under way as the fiscal year closed. Considerable time and effort were devoted during the year to organizational change management. A large portion of the success of the partnership is due to the efforts of the engagement manager of AMS, Mr. Gary Musgrove, whose wonderful spirit of collaboration I wish to acknowledge.

Tax revenues did not escape the long shadow cast by September 11, 2001. Total general fund tax revenues which had climbed 6.2% in fiscal year 2001 over the previous year fell 3.5% during fiscal year 2002. Much of the drop was the result of the plunge in visitor counts that rippled through Hawaii's tourism-dependent economy. It was also the result of initiatives that deferred tax revenues in response to economic challenges posed by 9/11.

Auditors, collectors, and examiners have worked hard to collect taxpayers' fair share during the hard times experienced by many this year. The staff continued to uphold public trust in all aspects of the department's work. Cigarette stamps proved a huge success. Electronic filing has taken long strides in public participation. The hard work of all the department's employees ensured smooth operations throughout the year.

Respectfully submitted,

A handwritten signature in cursive script, reading "Marie Y. Okamura".

MARIE Y. OKAMURA
Director of Taxation

TABLE OF CONTENTS

LETTER OF TRANSMITTAL TO THE GOVERNOR	Inside Front Cover
THE YEAR IN REVIEW.....	2
TAX SERVICES AND PROCESSING DIVISION.....	2
COMPLIANCE DIVISION.....	3
STAFF OFFICES	6
TAXPAYER ADVOCACY PROGRAM.....	9
MANAGEMENT PERSONNEL.....	10
ORGANIZATION CHART.....	11
DISTRICT OFFICES	12
TAX APPEALS AND LITIGATION.....	14
BOARDS OF REVIEW	14
COURT DECISIONS	14
CRIMINAL CASES	17
LEGISLATION.....	18
INCOME ASSESSMENT AND AUDIT.....	21
INDIVIDUAL INCOME TAX	21
CORPORATE INCOME TAX.....	22
GENERAL EXCISE AND USE TAXES	23
TRANSIENT ACCOMMODATIONS TAX	25
FUEL AND MOTOR VEHICLE TAXES	25
PUBLIC SERVICE COMPANY TAXES	30
ESTATE AND TRANSFER TAXES.....	30
OTHER TAXES	31
COLLECTION AND ACCOUNTING OF TAXES	32
TAX COLLECTIONS	32
DISTRIBUTION OF TAXES	33
BRIEF SUMMARY OF HAWAII'S TAX SYSTEM	34
OUTLINE OF THE HAWAII TAX SYSTEM	36
COUNCIL ON REVENUES	40
BOARDS OF REVIEW.....	40

THE YEAR IN REVIEW

TAX SERVICES AND PROCESSING DIVISION

The objectives of the Tax Services and Processing Division are achieved through the activities of the three branches that comprise the division. These are the Documents Processing, Revenue Accounting, and Taxpayer Services Branches.

The major objective of the Documents Processing Branch is to efficiently process all tax returns and documents on a timely basis. This branch processed approximately 96,000 pounds of incoming mail including 1.3 million payment transactions. Collections through the electronic funds transfer (EFT) program exceeded \$1.8 billion. During the fiscal year this branch accepted 80,000 electronically filed individual income tax returns for the 2001 tax year through a joint electronic filing program with the IRS. In the prior year, there were 23,000 income tax returns filed electronically through this program and the level of activity in the current fiscal year represents an almost fourfold increase. Since April 2001, this branch has also been processing select tax forms and payments electronically through the State of Hawaii's internet portal and currently has approximately 6,000 registered users. During fiscal 2002, development continued on both electronic filing programs with the addition of more electronic forms. Forms that were placed into production on the internet portal include the periodic and annual general excise tax returns (G-45 and G-49) and the short form individual income tax return (N-13).

The objectives of the Revenue Accounting Branch are to maintain accurate records and to provide accounting reports on a timely basis. This was achieved through controlling and accounting for all tax collections, adjustments, and refunds on a timely basis. Reporting deadlines were met. During the past fiscal year the branch also implemented tax law changes involving the public service company tax (splitting of tax revenues with the appropriate counties for taxes due over four percent) and the conversion of companies primarily involved with transportation services from public service company taxpayers to general excise taxpayers. These changes were implemented for Oahu district office taxpayers by this branch.

The primary objectives of the Taxpayer Services Branch are to provide service, disseminate information, and supply forms to taxpayers. The branch achieves this through traditional channels such as the issuance of Tax Facts, which provides relevant information on tax topics of general interest, quarterly newsletters, semiannual informational workshops for tax practitioners, annual practitioners' forum, public service announcements, and press releases. During fiscal year 2002, the number of locations for the semiannual workshops for practitioners was expanded from four to six on a trial basis. The additional sites were in Leeward Oahu and Kona. In the upcoming fiscal year, only the Kona location will continue as attendance levels at the Leeward Oahu site were less than expected. Other forms of communication with taxpayers include the answering of questions through telephone inquiry and letter correspondence. During the fiscal year, forms availability was greatly increased with the cooperation of the Hawaii State Public Library System which stocked income tax forms and brochures at all of their statewide locations. Through the library system, approximately 100,000 forms and brochures were distributed to taxpayers during the tax season.

This branch also utilizes newer delivery channels by providing information and forms through the department's website, forms-by-fax/mail service, email correspondence, and a CD-ROM (containing forms and relevant tax information). The website continues to see double digit increases (approximately 53% during fiscal 2002) in the number of "hits" it receives. Email correspondence likewise experienced a 46% increase during the fiscal year. The forms-by-fax/mail service offers taxpayers the opportunity to direct requests for forms to "live people" rather than automated phone answering equipment. The number of forms provided during the tax season of this fiscal year remained the same as last year. The CD-ROM continues to allow taxpayers to input data into forms and print the completed forms from their printers which tax preparers find very useful. As part of the department's internet offering, applications for tax clearances as well as for one-time event business licenses can also be completed and submitted (including payment if applicable) electronically through the State of Hawaii's internet portal. The availability of these forms allows taxpayers and businesses the opportunity to file these forms at their convenience, twenty-four hours a day, seven days a week. The branch also implemented the revised filing frequency schedule for business tax types, which had been enacted during the October 2001 special session of the legislature. As part of this effort, approximately 84,000 changes in filing frequency notices were mailed out. Of this total, approximately 27,000 taxpayers elected to retain their original filing.

To minimize printing and postage expense this branch also participated in the implementation of a booklet suppression project, which provides business taxpayers with an opportunity to decline the receipt of the tax booklets. The department will realize printing and postage cost savings; taxpayers who file and pay using service providers or electronic delivery channels have found the additional paper to be unnecessary.

COMPLIANCE DIVISION

The primary objective of the Compliance Division continues to be the maximization of taxpayer compliance with the Hawaii tax laws. The division is comprised of Audit Branches and Collection Branches. In this voluntary compliance and self-assessment system, the division meets its objective through: 1) returns processing and exception handling; 2) auditing; 3) collection and; 4) taxpayer services and information dissemination.

Exception Handling/Error Correction

The Audit Branches perform exception (error) handling of the 350,385 net income tax related returns and other documents processed by the department during the fiscal year. The Audit Branches were able to timely process or correct the errors on-line and within the established time periods.

Exception handling was also performed on general excise, use, transient accommodations and other tax returns. These returns represent the largest volume of returns processed by the department and include periodic (monthly, quarterly, and semiannual) and annual tax returns.

Auditing

To support the self-assessment and voluntary compliance system, the Audit Branches performed 5,455 audits during fiscal year 2002.

	<u>Office Audits</u>		<u>Field Audits (cases)</u>	
	<u>Number</u>	<u>Assessments</u>	<u>Number</u>	<u>Assessments</u>
Oahu	3,612	\$26,875,862	194	\$79,228,056
Maui	523	3,441,000	10	551,120
Hawaii	581	2,219,171	41	1,776,749
Kauai	460	2,407,411	34	1,296,323
Total FY2002	5,176	34,943,444	279	82,852,248
Total FY2001	6,625	111,915,343	384	88,550,858
Difference	<u>(1,449)</u>	<u>(\$ 76,971,899)</u>	<u>(105)</u>	<u>(\$ 5,698,610)</u>

The Office Audit Branch closed 5,176 cases for a total of \$34.9 million in assessments, which represents a \$77.0 million decrease from the previous fiscal year. The difference is primarily due to a decrease in the number of failure-to-file cases referred during fiscal year 2002. The Field Audit Branch closed 279 cases with assessments totaling \$82.9 million. The assessments are \$5.7 million less than the previous year's total.

Criminal Tax Unit

During fiscal year 2002, indictments and complaints were filed against 22 individuals and six corporations. Highlights of these actions appear in the "Criminal Cases" section on page 17.

Taxpayer Assistance

The Compliance Division is also responsible for providing taxpayer assistance on the neighbor islands. During the fiscal year, Compliance Division staff provided over 160,000 instances of taxpayer assistance over the telephone, in person, and by correspondence. There is continued emphasis on taxpayer education and problem resolution to maintain taxpayers' willingness to accurately and voluntarily comply with Hawaii tax laws.

Special Projects

Each year the Audit Branches conduct special projects on current or long-standing concerns. Listed below are the major projects managed by the Audit Branches in fiscal year 2002.

- Examination of returns prepared by various suspect tax return preparation services
- Federal contractors project
- Intermediary services project
- Mainland audit project
- Miscellaneous taxes project
- Public service company tax project
- Unlicensed contractors project
- Air cargo and freight forwarders project

Delinquent Tax Collections

The operations of the Compliance Division's Tax Enforcement Program resulted in substantial increases in most of its key performance measurements; however, not all the increases were of a positive nature. A key example is the forty percent increase in the amount of delinquent taxes referred during fiscal year 2002 over the amount of delinquent taxes referred in the previous fiscal year. Nearly every major tax type administered by the department experienced double-digit increases in the amount of delinquent taxes referred during the 2002 fiscal year. The overall \$66.7 million increase (28.3%) in the total delinquent tax balance overshadowed the \$113.1 million in cash collected, a 9.3% increase over the previous fiscal year. The significant increase in the number of payment plans made (202.9%) was the result of the department's new ITIMS Collection System, which facilitates the initiation and maintenance of payment plans. A table of major measurements is presented below.

<u>Measurement</u>	<u>FY 2002</u>	<u>FY 2001</u>	<u>Difference</u>	<u>% Change</u>
Total Delinquent Tax Balance (\$millions)	\$ 302.8	\$ 236.1	\$ 66.7	28.3%
Total New Delinquent Referrals (\$millions)	\$ 183.6	\$ 130.3	\$ 53.3	40.9%
Total Cash Collected (\$millions)	\$ 113.1	\$ 103.5	\$ 9.6	9.3%
Uncollectible Tax Write-offs (\$millions)	\$ 3.9	\$ 8.9	(\$ 5.0)	(56.2%)
Payment Plans Instituted (number)	6,215	2,052	4,163	202.9%
Tax Liens Filed (number)	2,449	3,101	(652)	(21.0%)
Levies Served (number)	2,070	3,038	(968)	(31.9%)

STAFF OFFICES

Administrative Services Office

Fiscal Office

The Administrative Services Office prepared the fiscal year 2003 supplemental budget for the 2002 legislature. For fiscal year 2003, the department was appropriated \$18.3 million.

The department incurred operating expenditures of \$18.1 million for fiscal year 2002. With total taxes collected and administered by the department decreasing by \$119.0 million and expenditures increasing from \$17.0 million to \$18.1 million, the cost to collect \$100 of taxes increased from 44¢ in fiscal year 2001 to 48¢ in fiscal year 2002.

Personnel Management

Three hundred forty-three positions were authorized for the fiscal year. Employees were geographically distributed as follows: Oahu, 275; Hawaii, 29; Maui/Molokai, 25; and Kauai, 14. Personnel actions within the department included seven new civil service hires, six retirements, 111 temporary hires, 14 promotions, four transfers and seven resignations. Other personnel actions included temporary assignments of employees to higher levels to provide services for employees who have been temporarily assigned to the ITIMS Project.

STAFFING PATTERN (Number of Authorized Permanent Positions)

<u>By Organization/Operating Program</u>	<u>2002</u>	<u>2001</u>
Headquarters Administration	40	40
Tax Services and Processing Division	99	99
Compliance Division	<u>204</u>	<u>204</u>
TOTAL	343	343

Employees participated in various training programs to expand their professional skills, thus increasing their efficiency and effectiveness. In total, the Personnel Office recorded 905 training sessions attended by departmental employees for the fiscal year. In addition to computer classes and other classes offered by the Department of Human Resources Development, the Personnel Office coordinated Change Management and Workplace Violence trainings for all employees. A special session on investigation and discipline was conducted by the personnel staff for managers and supervisors.

Rules Office

The Rules Office is the department's advisory arm to the director of taxation on tax policy. In addition to drafting and commenting on tax proposals, the Rules Office develops tax policy through rules, tax information releases, announcements, directives, and other publications.

During the Third Special Session of 2001, the Rules Office drafted three administration-sponsored bills. The Rules Office prepared testimony on 12 bills and submitted comments to the governor on six acts passed by the legislature.

For the 2002 legislative session, the Rules Office drafted 12 administration-sponsored bills. The Rules Office prepared testimony on 279 bills and nine resolutions and submitted comments to the governor on 37 acts passed by the legislature.

Also during the 2001-2002 fiscal year, the Rules Office prepared 17 letters for the governor, 129 letters for the director, 18 announcements, and five tax information releases. A public hearing was held on rules amending chapters 18-243 (fuel tax) and 18-251 (rental vehicle and tour vehicle tax). The rules for chapter 18-244D were repealed (obsolete liquor tax rules). These rules were adopted by the department and forwarded to the governor for approval.

Office staff also reviewed legislative proposals, testified at legislative committee hearings on behalf of the director, reviewed rules of other agencies, and provided training for department employees and speakers at several workshops for practitioners.

Information Technology Services Office

The Information Technology Services Office (ITSO) is responsible for the development, modification, and maintenance of the department's computerized tax systems and components. This fiscal year ITSO focused its efforts and resources primarily on two major initiatives: the Integrated Tax Information Management System (ITIMS) project and electronic filing projects.

The first major initiative, the ITIMS project continued into year three of the five-year project for the development and implementation of an integrated client/server system to replace the existing Comprehensive Net Income Tax (CNIT) and General Excise, Withholding, Transient Accommodations, and Rental Vehicle/Tour Vehicle Surcharge Tax (GEW/TAT) mainframe computer systems. The focus and efforts of the ITIMS project during the fiscal year was on the development of the ITIMS Tax Processing System (ITPS) and replacement of the CNIT system. The planned implementation is the next fiscal year (November 2002). The project's next phase addresses the GEW/TAT migration to ITPS.

The second major initiative is the expansion of the department's electronic filing programs. The Federal/State Joint Electronic Filing (JELF) program was expanded to include additional attachments and more software developers participating in the program. The result was a more than threefold increase in the number of electronically filed N-11 returns (79,498 vs. 23,155) during the fiscal year. The internet Electronic Filing (ELF) program via eHawaiiGov was expanded to include eight additional tax forms, customized menus, better administrative account

processing, and the acceptance of credit card payments. This has provided taxpayers with more opportunities to conveniently file and pay their taxes on-line. At the close of the fiscal year, there were 6,799 taxpayers registered with the website, with a total of 4,060 tax forms electronically filed. In an ongoing effort to save costs in the printing and mailing of tax booklets, a new web page was implemented that allows taxpayers to request that their business (general excise, withholding, transient accommodation, and rental vehicle) tax booklet no longer be mailed to them.

The systems networking staff continues to improve support to departmental users in all district offices. The connection to the district offices were converted from Frame-Relay to the state's Next Generation Network (NGN). The team provides ongoing support to the ITIMS project and department with the installation, configuration, testing, implementation and training of new technologies, including Windows-based operating systems, and software and hardware upgrades.

The GEW/TAT system was enhanced for tax law changes and cost savings. The filing frequency thresholds for business tax filers were changed during the third special session of 2001. This allowed taxpayers who were filing on a monthly or quarterly basis to file on a less frequent basis, either quarterly or semiannual respectively to provide economic relief to the taxpayers. The physical printing of GE licenses was outsourced to a vendor. This eliminated the need and cost to reprint unreadable licenses stemming from the use of outdated carbon paper and impact printer technology.

Tax Research and Planning Office

The Tax Research & Planning Office (TR&P) reviews and analyzes the effect of legislative tax proposals, publishes statistics on income tax and tax credits, compiles the department's annual report and provides administrative and technical support to the Council on Revenues. During the 2002 regular legislative session, TR&P analyzed over 230 tax proposals for impact on tax revenues. In the special session following the September 11, 2001 tragedy, TR&P evaluated eight tax proposals to stimulate the economy.

The Council on Revenues, to which TR&P is technical staff, consists of seven community members who provide the state with projections of state general fund tax revenues and state total personal income. This information is used to determine the state's general fund expenditure limits. The Council estimated a 0.7% decline in general fund tax revenues for fiscal 2002 and a 3.5% growth for total personal income in calendar 2001. Actual general fund tax revenues of \$3,048.5 million for fiscal 2002 represented a 3.5% drop over fiscal 2001. Total personal income for calendar 2001 amounted to nearly \$34.9 billion, representing a 3.3% growth from the previous calendar year.

TR&P completed drafts of three statistical publications during the 2002 fiscal year and these reports were published at or shortly after the end of the fiscal year. "Tax Credits Claimed by Hawaii Residents (2000)" was published in June 2002. Total tax credits claimed for tax year 2000 amounted to \$92.9 million--\$50.0 million claimed by individuals and \$42.9 million by corporations. Published in July 2002, "Hawaii Income Patterns - Individuals (2000)" presented results of individual income tax returns filed for tax year 2000. As reported, total adjusted gross

income for Hawaii residents amounted to \$19.1 billion, of which \$14.3 billion was taxable. “Hawaii Income Patterns - Corporation, Proprietorship, Partnership (2000)” was also published in July 2002. With that publication, the frequency of the business study returned to once every two years instead of every three. A total of 166,866 returns were filed by businesses whose fiscal year ended in 2000. Rental proprietorships and financial corporations are categories included for the first time in the report. Total gross receipts of \$71.0 billion were reported for the fiscal year ending 2000.

TAXPAYER ADVOCACY PROGRAM

The Taxpayer Advocacy Program is a pilot project which provides a one-stop service for taxpayer concerns that cannot be resolved through normal channels. Currently, the advocate office is a one-person operation focused on the needs of the taxpayer.

For fiscal year 2002, the advocacy program assisted 131 taxpayers with the resolution of their tax matters. Issues included erroneous billings, non-receipt of refunds, waivers for penalty and interest, verifications of tax liabilities, explanations of letters and assessments, non-filed returns, collections and general tax information. Additional cases were resolved by guiding the taxpayer to the appropriate personnel.

The Taxpayer Advocate participated in the Internal Revenue Services’ (IRS) “Problem Solving Day” on the island of Oahu. These special days were set aside for taxpayers who cannot take advantage of weekday problem solving service. Taxpayers were provided with assistance on filing of tax returns, amended tax returns, corrections to tax liabilities, requests for penalty and interest waivers, payment plan arrangements, offers in compromise, collection and audit issues and tax information.

During the tax season the department and the IRS held outreach services at Kohala on the island of Hawaii, Molokai and at Waianae on the island of Oahu. The Taxpayer Advocate coordinated the department’s partnership in this joint outreach venture, which provided tax services to communities that do not normally have access to these services. A variety of tax services were provided.

The majority of taxpayers express satisfaction with the process. The Taxpayer Advocacy program has focused on taxpayers’ needs while maintaining taxpayer confidence that the department will administer Hawaii’s tax laws in a consistent, uniform and fair manner.

MANAGEMENT PERSONNEL

OFFICE OF THE DIRECTOR

Director of Taxation.....Marie Y. Okamura
Deputy Director of Taxation.....Grant Tanimoto

STAFF OFFICES

Rules Officer, Acting.....Grant Tanimoto
Tax Research & Planning Officer.....Francis Okano
Information Technology Services Officer.....Clay Sato
Administrative Services Officer.....Warren Higashi
Personnel Officer.....Alexandra Nakamura

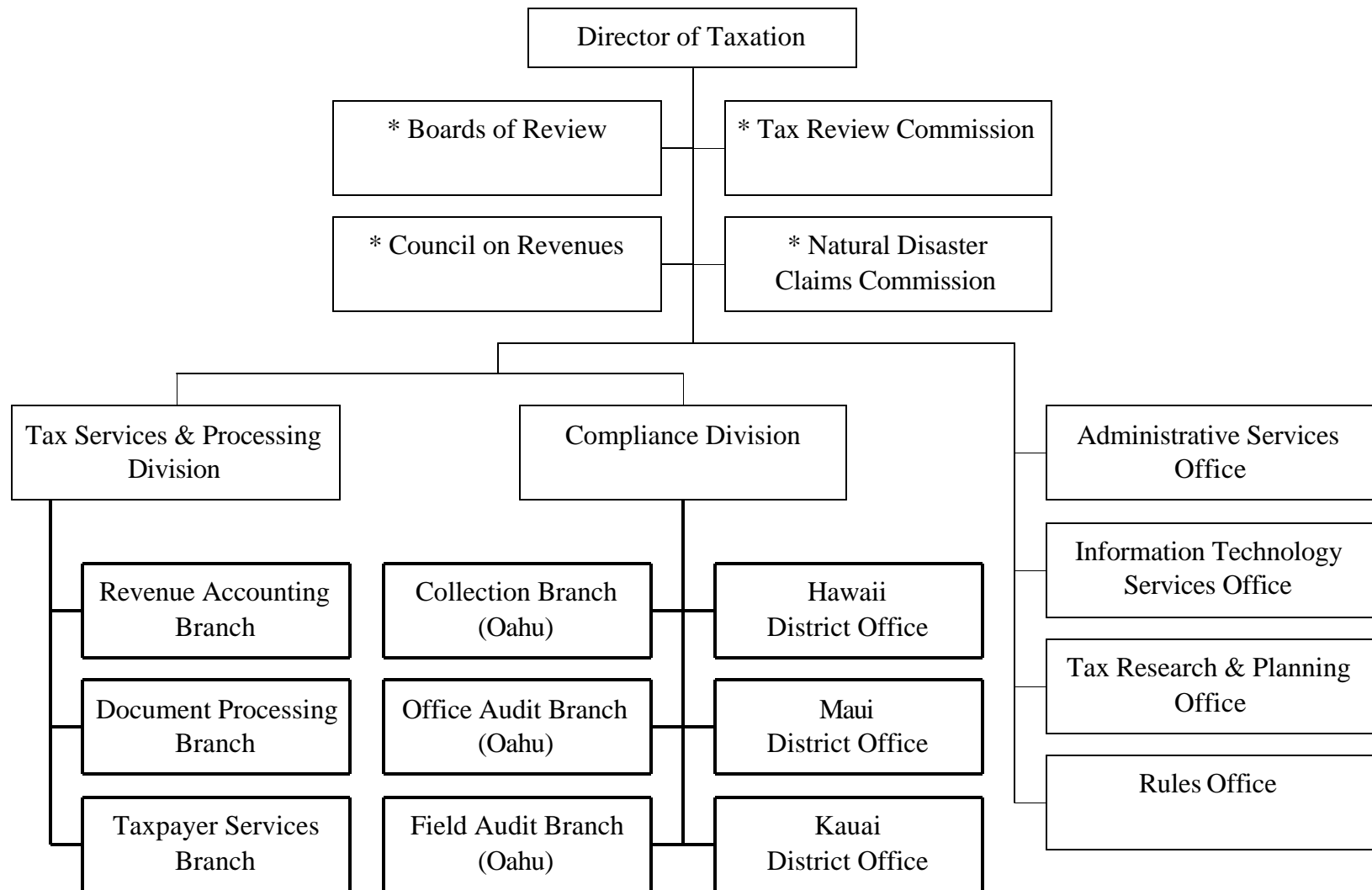
OPERATIONS STAFF

Compliance Division Chief.....Ronald Randall
Tax Audit Technical Coordinator.....Richard Chiogioji
Tax Collection Technical Coordinator.....Wayne Kinoshita
Oahu Field Audit Branch.....Vacant
Oahu Office Audit Branch.....Jill Yamasaki
Oahu Collection Branch.....Lynne Kaneta
Maui District Tax Manager.....Vacant
Hawaii District Tax Manager.....Ronald Yabe
Kauai District Tax Manager.....Ernest Balderas

Tax Services and Processing Division Chief.....Kerry Yoneshige
Taxpayer Services Branch.....Vacant
Document Processing Branch.....Jerry Ebesu
Revenue Accounting Branch.....Deanne Obatake

ORGANIZATION CHART

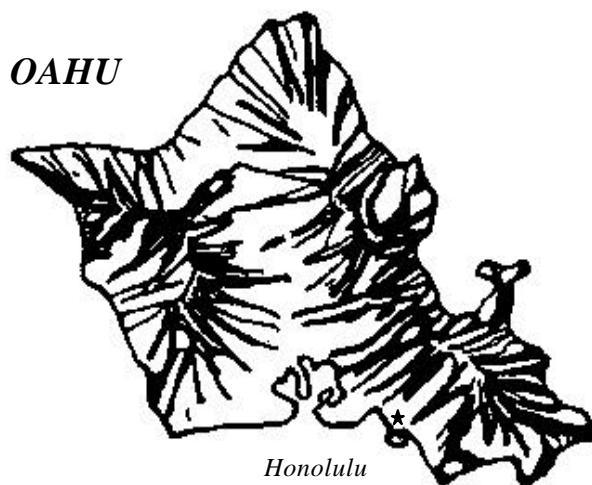
Department of Taxation State of Hawaii



* For Administrative Purposes

FIRST TAXATION DISTRICT

Island of Oahu

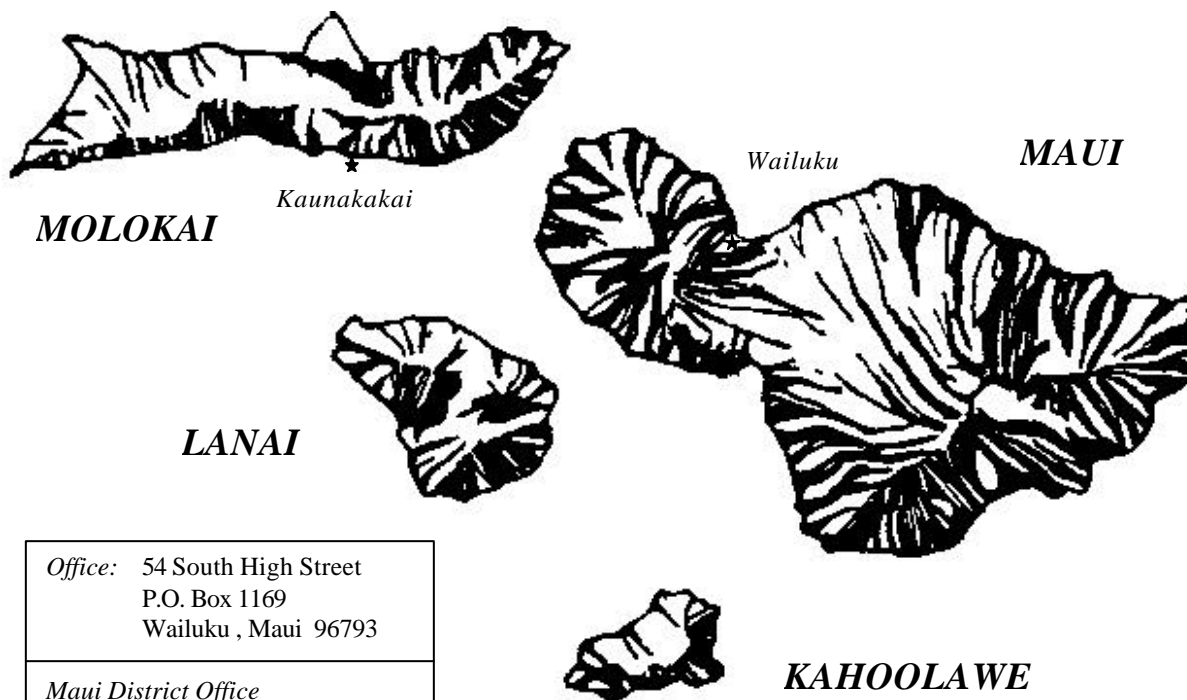


Office: 830 Punchbowl Street
P.O. Box 259
Honolulu, Hawaii 96809

Compliance Division Chief
Ronald Randall
Oahu Office Audit Branch
Jill Yamasaki
Oahu Field Audit Branch
Vacant
Oahu Collection Branch
Lynne Kaneta
Tax Services & Processing Branch Chief
Kerry Yoneshige
Taxpayer Services Branch
Vacant
Document Processing Branch
Jerry Ebesu
Revenue Accounting Branch
Deanne Obatake

SECOND TAXATION DISTRICT

Islands of Maui, Molokai, and Lanai



Office: 54 South High Street
P.O. Box 1169
Wailuku, Maui 96793

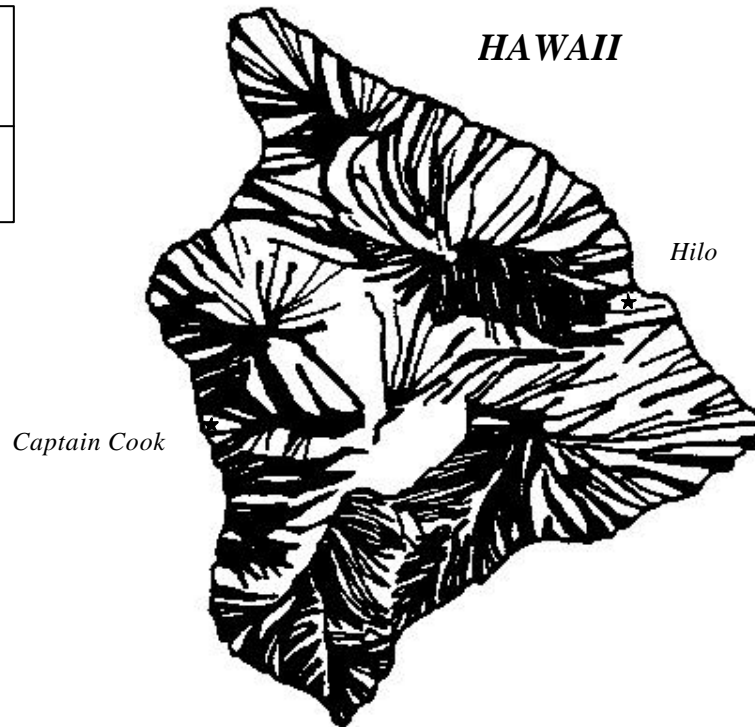
Maui District Office
Vacant

THIRD TAXATION DISTRICT

Island of Hawaii

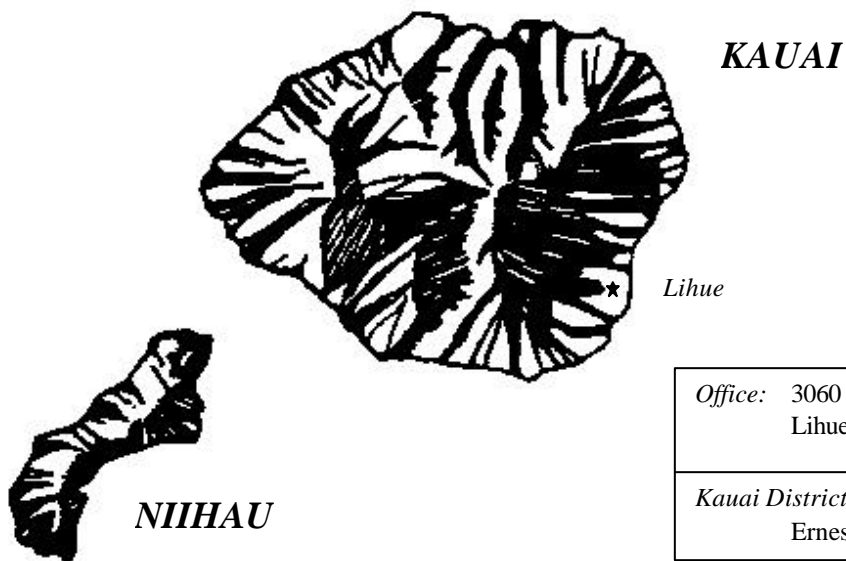
Office: 75 Aupuni Street
P.O. Box 83
Hilo, Hawaii 96721

Hawaii District Office
Ronald Yabe



FOURTH TAXATION DISTRICT

Islands of Kauai and Niihau



Office: 3060 Eiwa Street #105
Lihue Kauai 96766

Kauai District Office
Ernest Balderas

TAX APPEALS AND LITIGATION

BOARDS OF REVIEW

Each taxation district has a Board of Review consisting of five members. Tax disputes that are not resolved at the district tax office level are presented to the Board of Review. Statewide, the boards began the fiscal year with 90 pending tax appeals. Although 53 appeals were settled, 50 new appeals were filed, resulting in a total of 87 appeals pending at the year end. Tax liabilities decided in favor of the state amounted to \$9.2 million while those decided in favor of the taxpayers amounted to \$0.8 million. A summary of the number of appeals before the boards by tax district follows:

	<u>Oahu</u>	<u>Maui</u>	<u>Hawaii</u>	<u>Kauai</u>	<u>Total</u>
Appeals Pending – Beginning	75	7	8	0	90
New Appeals Filed	35	7	7	1	50
Appeals Settled	40	1	11	1	53
Appeals Pending – Ending	70	13	4	0	87

COURT DECISIONS

State of Hawaii v. Stagner, Crim. No. 95-1256, Circuit Court of the First Circuit

The Defendant issued a subpoena on the Department to produce confidential net income tax records of co-defendants. The Department filed a motion to quash the subpoena. The Circuit Court held that the tax records should not be disclosed because the disclosure of tax returns and tax return information is prohibited by HRS § 235-116.

Darick v. Kamikawa, et al., Civil No. 01-000646, United States District Court for the District of Hawaii

Warren J. Darick ("Darick") filed an action in United States District Court ("USDC") against Ray Kamikawa and Judge Gary Chang, in their individual and official capacities as the Director of Taxation and state Circuit Court judge. Darick's complaint sought declaratory and injunctive relief for the tax assessment and the state tax court decision. A motion to dismiss was filed on behalf of Ray Kamikawa. The basis for the motion was that the USDC does not have jurisdiction to review cases involving state tax issues pursuant to the Tax Injunction Act, 28 U.S.C. § 1341, Eleventh Amendment of the U.S. Constitution, principle of comity, and the Rooker-Feldman doctrine. The USDC granted the motion to dismiss recognizing that it did not have jurisdiction to review the matter. Darick has appealed to the U.S. Court of Appeals for the Ninth Circuit.

In re Tax Appeal of Neil Rhoads, Hawaii State Supreme Court No. 24541

Neil Rhoads ("Rhoads") appealed the judgment of the Tax Appeal Court raising the following points: (1) the Tax Appeal Court's final judgment is invalid because untimely; (2) the Tax Appeal Court erred in denying Rhoads the opportunity to enter testimony on the Director's motion to dismiss/summary judgment; (3) the Tax Appeal Court erred by not interpreting "ambiguities" in the taxing statutes in favor of the taxpayer; and (4) the Tax Appeal Court erred in granting the Director's motion because whether the State was a state was in controversy. The Hawaii supreme court summarily dismissed Rhoads' arguments and sanctioned Rhoads for frivolous appeal.

In re Arthur Norton Weiner, Bk. Case No. 93-00889, United States Bankruptcy Court for the District of Hawaii

The Department and the Internal Revenue Service (collectively, the "Taxing Authorities") objected to the Chapter 7 trustee's final report in which she proposed to treat the Debtor's 1994 income tax liabilities as incurred while the case was in Chapter 11, which would have resulted in a subordination of the federal and Hawaii tax claims to the other Chapter 7 administrative expenses. While in Chapter 11, in 1994, the Debtor had sold real property, incurring capital gains tax liabilities. Subsequently, prior to the end of its 1994 tax year, the Debtor converted his Chapter 11 case to Chapter 7. The Taxing Authorities contended that the Debtor's tax liabilities accrued on the last day of 1994 (after the case had been converted to Chapter 7), rather than on the date the Debtor's property was sold. The Bankruptcy Court agreed with the Taxing Authorities, deeming the tax liabilities to be administrative expenses entitled to share in any monies of the Chapter 7 estate with other administrative creditors, such as the trustee, the trustee's counsel and other professionals of the Debtor.

Island Insurance Co. v. United States, Civil No.00-16874, United States Court of Appeals for the Ninth Circuit

In a published opinion dated May 3, 2002, the U.S. Court of Appeals for the Ninth Circuit reversed the USDC's decision against the Internal Revenue Service and the State. At the trial level, the court held that the IRS, the State of Hawaii, Department of Taxation, and the State of Hawaii, Department of Labor were not third-party beneficiaries of a surety bond. In a 2-1 decision, the Ninth Circuit disagreed. The Ninth Circuit held that the IRS and the State of Hawaii were the intended beneficiaries, for the purpose of securing the payment of taxes due, of a surety bond that insured the subcontractor/taxpayer's performance. Subsequently, the Ninth Circuit denied the surety, Island Insurance's petition for panel rehearing and rehearing en banc. At the time of publication, the time for surety Island Insurance to file a petition for certiorari to the United States Supreme Court had not expired.

In re Jerome S. Baum, T.A. No. 02-0039, Tax Appeal Court of the State of Hawaii

The Department disallowed the segregation of the Taxpayer's worldwide income and included this amount as gross income in his joint tax return. Taxpayer appealed the Board of Review's decision agreeing with the Department, arguing that he mistakenly filed a joint tax return instead of separate tax returns. The Tax Appeal Court granted the Department's motion to dismiss based on the Court's lack of jurisdiction because the Taxpayer had not timely filed his Notice of Appeal from the Board of Review and paid the assessed taxes as required by HRS § 237-114.

Haia v. State of Hawaii, Department of Taxation, Civil No. 02-1-1355-06, Circuit Court of the First Circuit

Taxpayer filed a complaint seeking declaratory relief, claiming that a lien was wrongfully imposed against him for failure to pay public service company taxes and that he did not know whether he was required to file and pay assessed public service company taxes. The court granted the Department's motion to dismiss on the grounds that declaratory relief can not be granted in cases involving taxes.

James F. Gregory and Joyce E. Gregory Charitable Remainder Trust, Dated September 9, 1997 v. Matsumoto, et. al., T. No. 00-01-003, Circuit Court of the Third Circuit

The Department was subpoenaed for tax information and for the individual tax records of income beneficiaries of a charitable remainder trust. The Department filed a motion to quash arguing that beneficiaries' individual tax information and records are confidential and cannot be released without consent pursuant to HRS §§ 235-116 and 237-34(b). At the hearing the subpoena was withdrawn by the party requesting the tax information.

In the Matter of Tax Appeal of Hyun Sook and Richard E. Cordes, T. A. No. 02-0034, Tax Appeal Court of the State of Hawaii

Taxpayers appealed an income tax assessment directly to the tax appeal court, paying the amount in controversy under protest. The Department's motion to dismiss claimed that the notice of appeal was untimely and that the notice of appeal would be untimely even if it could be construed as a complaint under HRS § 40-35. The Tax Appeal Court granted the motion to dismiss.

State of Hawaii v. Xuan Mai Dinh and Minh Duc Luu, Crim. No. 01-1-1890, Circuit Court of the First Circuit, State of Hawaii

The State of Hawaii as plaintiff in this welfare fraud case issued a subpoena duces tecum on the Director to produce tax returns. The basis for the subpoena duces tecum was that the information was necessary to investigate certain crimes and therefore should be made available to any commissioned investigator of the Department of Human Services. The Director's motion to quash argued that (1) the disclosure of the requested tax records was prohibited by HRS §§ 237-34 and 235-116; (2) HRS § 346-4.5 may require access to the tax records for certain identified purposes but not copies of such records; (3) necessary tax information is available if the defendants execute the authorization form and that an order compelling the defendants to do so does not necessarily violate the defendants' fifth amendment privilege against self-incrimination; and (4) Hawaii has a self-assessing tax system with confidentiality laws to ensure free and accurate flow of information from taxpayers. The Director of Taxation's motion to quash was granted.

CRIMINAL CASES

Indictments and complaints were filed against 22 individual and six corporations during fiscal year 2002. These indictments and complaints resulted in tax assessments of \$3,399,089.

Of the 22 individuals and six corporations charged for tax violations, 17 have pled "no contest" or "guilty"; two were dismissed; one received a deferral, one is a fugitive, and seven are scheduled for trial. Judicial fines of \$185,500 were assessed on those convicted.

Other Matters Closed

Appeals	5
Bankruptcies	244
Foreclosures	452
Subpoenas	13
Opinions	2
Contracts	2
Legislation	44
Miscellaneous	41

Amounts Collected

Tax Appeals	\$ 16,423,380.16 *
Foreclosures	\$ 93,756.43
Bankruptcies	\$ 2,818,901.68
Criminal	\$ 159,536.00
Miscellaneous	<u>\$ 245,099.71</u>
Total	\$ 19,740,673.98

* Most of the amounts collected arose from a large settlement.

LEGISLATION

The 2001 legislature, third special session, and the 2002 legislature enacted the following tax-related bills:

2001 THIRD SPECIAL SESSION

<u>Act</u>	<u>Brief Description</u>
8	Increases the filing thresholds for taxpayers filing withholding, general excise/use, transient accommodations, and rental motor vehicle and tour vehicle surcharge tax returns. Effective November 2, 2001; generally applicable to gross income received and taxes accruing on or after October 1, 2001.
9	Subjects transportation service providers to the GET in lieu of the PSC tax for gross income received on October 1, 2001 and thereafter, from transporting property or persons within the State. The affected transportation service providers include airlines, motor carriers, common carriers by water, and contract carriers other than motor carriers who were subject to the PSC tax under HRS §239-6. Effective November 2, 2001.
10	Provides a new nonrefundable residential construction and remodeling income tax credit for four percent of the construction or renovation costs incurred before July 1, 2002, up to a maximum of \$250,000 in the aggregate for each unit; and amends the existing hotel construction and remodeling income tax credit for qualified hotel facilities. Effective November 2, 2001.

2002 LEGISLATURE

<u>Act</u>	<u>Brief Description</u>
63	Provides an income tax credit of \$1 multiplied by the number of the taxpayer's qualified exemptions to every resident, individual taxpayer of the State to satisfy constitutionally mandated requirements. Effective May 23, 2002.
94	Authorizes Department of Taxation and Department of the Attorney General to inspect any entity or vehicle to enforce the cigarette and tobacco tax law (Chapter 245, HRS). Effective May 31, 2002.

- 98 Provides an offset for taxes paid to another state where the general excise and use tax (GET) is imposed upon a transaction that has been subject to a sales or use tax in another state or taxing jurisdiction to avoid constitutionally prohibited multiple taxation. Effective May 31, 2002; applies to all open tax years and for tax years for which an appeal is pending at the time of approval.
- 110 Extends the \$2,000 GET exemption and the 0.5% GET rate to general, limited, or limited liability partnerships and limited liability companies all of whose partners or members are “blind,” “deaf,” or “totally disabled” as those terms are defined in HRS §235-1. Effective July 1, 2002; applies to gross income and gross proceeds received after June 30, 2002.
- 146 Changes the method of calculating the number of employees needed to meet the annual hiring requirements of the Hawaii Enterprise Zones (“EZ”) program; eliminates the use tax exemption for EZ qualified firms. Effective June 7, 2002.
- 153 Assists the department in the collection of taxes by: (1) expanding the department’s current authority to ascertain the fair market value (FMV) of sales between affiliated companies or persons when the consideration paid is not indicative of the FMV of sales and all taxes; (2) providing a continuous levy on the salary or wages of a delinquent taxpayer; (3) indemnifying a person from third parties when the person honors a state tax levy; and (4) expanding the authority for recovering unpaid withholding taxes. Effective June 7, 2002; applies to a levy made on or after July 1, 2002 and withholding requirement for payroll periods beginning on or after July 1, 2002.
- 174 Extends the nonrefundable 4% residential construction and remodeling income tax credit to costs incurred before July 1, 2003; further clarifies the costs for which the credit may be claimed. (Act 10, Third Special Session 2001, applied the credit to costs incurred before July 1, 2002). Effective June 21, 2002; applies to taxable years beginning after December 31, 2001.
- 176 Monies collected as a beverage container deposit shall be exempt from the GET. The act defines deposit beverage container; imposes deposit beverage container requirements and fees on distributors beginning October 1, 2002; requires beverage distributors to register with the state by September 1, 2002; establishes the deposit beverage container deposit special fund; provides for the redemption of empty beverage containers beginning January 1, 2005; provides requirements for recycling facilities and redemption centers. Effective July 1, 2002.
- 190 Lowers the adjusted gross income threshold for individuals required to make annual payments for underpaying their estimated taxes; reduces the percentages used to determine the required annual payment for individuals with adjusted gross incomes of more than \$50,000. Effective January 1, 2003.

- 206 Increases the minimum allocation to the captive insurance administrative fund. Eliminates the premium tax rate differential between pure captives and other captives. Establishes a declining premium tax rate schedule for all classes of captives. Effective January 1, 2003.
- 209 Provides regulation and taxing of state and local telecommunications services consistent with the federal Mobile Telecommunications Sourcing Act, Public Law No. 106-252, which takes effect on August 2, 2002. Under the new sourcing rules, income received from a customer whose place of primary use is in Hawaii will be subject to Hawaii taxes: either the general excise tax (GET) for interstate or foreign mobile phone calls or the public service company (PSC) tax for intrastate mobile phone calls. Also exempts income from wholesales of mobile telecommunication services (e.g., those sales that occur between two home service providers) from both the GET and PSC tax. Effective June 28, 2002; with respect to tax liabilities applies only to charges on or revenues from customer bills issued after August 1, 2002.
- 223 Amends Hawaii's Income Tax Law to conform with the changes to the Internal Revenue Code with exceptions. (Note: This bill does not conform to the Job Creation and Workers Assistance Act (Public Law No. 107-147) of March 9, 2002). Effective June 28, 2002; applies to taxable years beginning after December 31, 2001, except as otherwise provided.
- 225 Requires owners of motor vehicles of the current, previous, and subsequent year model bought out-of-state, subsequently brought into the State, and subject to the use tax under chapter 238, HRS, to provide with the application for registration proof of payment of the use tax pursuant to requirements established by the department. Effective January 1, 2003.
- 230 Allows Department of Education coaches to waive all or part of their payment stipend; requires the Department of Budget and Finance to dispense funds in the amount of the waiver directly to the school for the benefit of the coach's team; specifies that the amount waived shall not be reported as income of the coach. Effective June 28, 2002.
- 236 Allows telecommunication service providers to rely on their books and records kept in the normal course of business to segregate income received from different activities for both GET and PSC tax purposes; provides that the segregation is valid so long as the method of segregation does not conflict with rules subsequently adopted by the department. Applies to gross income, gross proceeds of sales, and value of products after July 1, 2002.
- 245 Establishes the Hawaii long-term care financing program; creates the Hawaii long-term care benefits fund to hold the premiums and pay benefits; establishes a board of trustees to administer the program. Effective July 1, 2003. Establishes a temporary board of trustees (from July 1, 2002 to June 30, 2003) to design the program, determine the amount and means of collection of a tax or fee, the nature and amount

of benefits, and recommend a third party administrator. Requires the temporary board of trustees to report to the 2003 legislature. Effective July 1, 2002.

- 246 Increases the cigarette tax rate from 5 cents for each cigarette sold to 6 cents after September 30, 2002, 6.5 cents after June 30, 2003, and 7 cents after June 30, 2004. Effective July 1, 2002.
- 251 Companion measure to the Long-Term Care Financing Act (LTCFA). Appropriates \$40,000 to the Executive Office on Aging (EOA) to convene a long-term care summit to identify the types and quality of services, service delivery system, and service delivery policies for the long-term care system established under the LTCFA; requires EOA to report findings and recommendations to the 2003 legislature. Effective July 1, 2002.

INCOME ASSESSMENT AND AUDIT

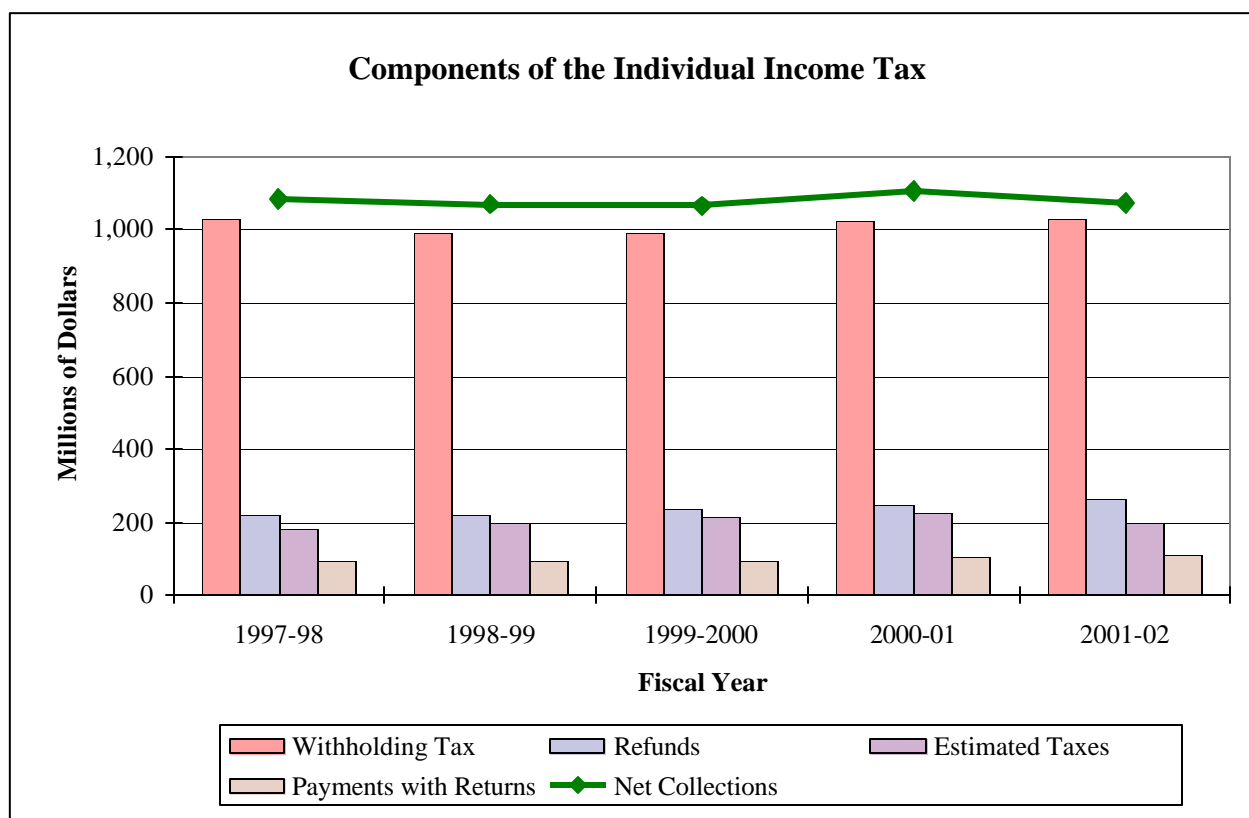
INDIVIDUAL INCOME TAX

The second and third stages of a three-stage reduction of personal income taxes passed by the 1998 legislature took effect on January 1, 2001 and January 1, 2002 (Act 157, SLH 1998). Despite lower individual tax rates and depressed visitor activity after September 11, withholding tax on wages actually increased 0.4% in fiscal year 2002. Contributing factors include increased construction and local consumption spending from low interest rates as well as higher government wages. A 10.4% decline in declaration of estimated taxes and an 8.3% increase in individual income tax refunds were the likely result of declines in the stock market and tourism-related proprietorship income as well as certain tax credits.

TAXES PAID BY INDIVIDUALS (In Thousands of Dollars)

	FY2002	FY2001	Difference	
			Amount	%
Declaration of Estimated Taxes	\$ 199,376	\$ 222,535	\$ (23,159)	(10.4)
Payment with Return	110,984	104,729	6,256	6.0
Withholding Tax on Wages	<u>1,027,031</u>	<u>1,022,959</u>	<u>4,072</u>	<u>0.4</u>
Subtotal	\$ 1,337,391	\$ 1,350,222	\$ (12,831)	(1.0)
Refunds	<u>265,801</u>	<u>245,403</u>	<u>20,397</u>	<u>8.3</u>
NET	<u>\$ 1,071,591</u>	<u>\$ 1,104,819</u>	<u>\$ (33,228)</u>	<u>(3.0)</u>

NOTE: Due to rounding, details may not add to totals.



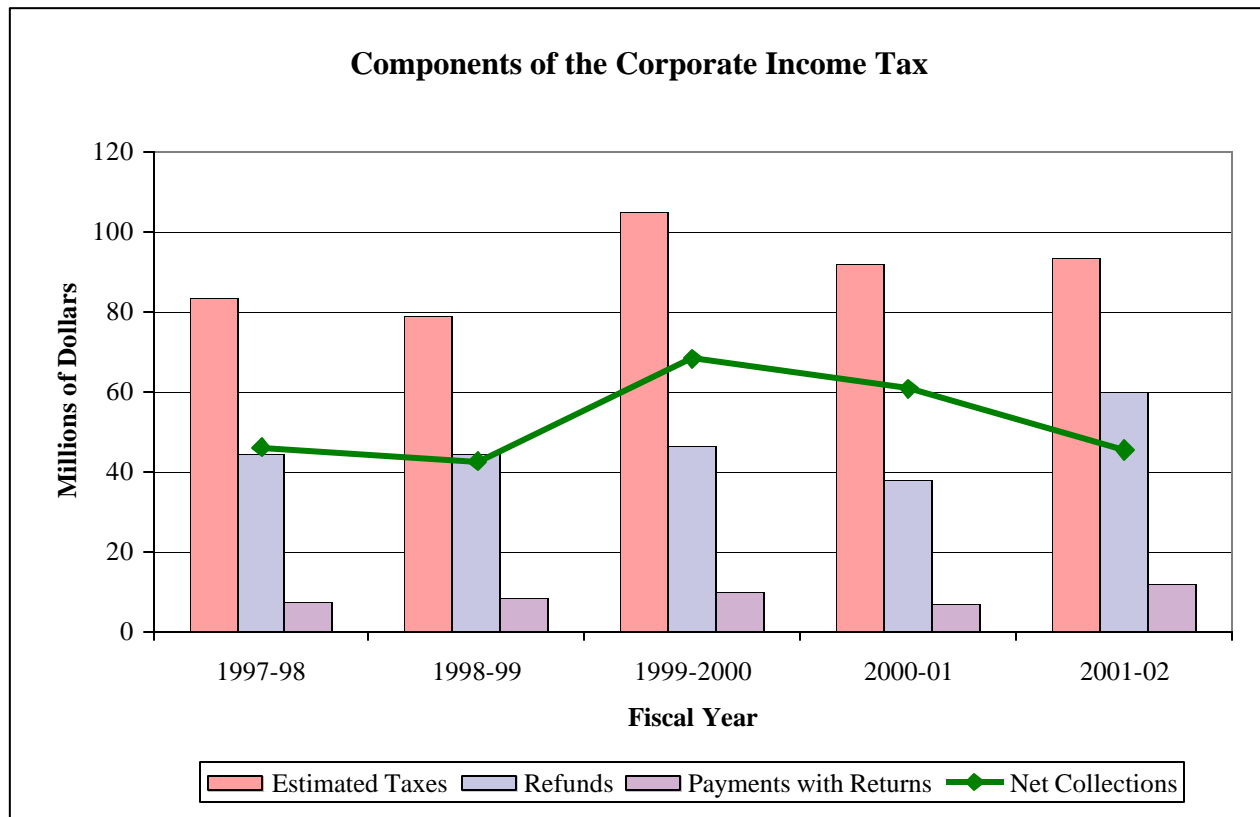
CORPORATE INCOME TAX

Net corporation income tax decreased from \$60.8 million in fiscal year 2001 to \$45.5 million in fiscal year 2002. This is a likely result of tourism decrease and finance activities. As shown, the \$21.7 million increase in refunds overwhelmed the \$6.4 million increase in declaration of estimated taxes and payment with return.

TAXES PAID BY CORPORATIONS (In Thousands of Dollars)

	FY2002	FY2001	Difference	
			Amount	%
Declaration of Estimated Taxes	\$ 93,239	\$ 91,956	\$ 1,283	1.4
Payment with Return	12,092	7,008	5,084	72.5
Subtotal	\$ 105,331	\$ 98,964	\$ 6,367	6.4
Refunds	59,854	38,171	21,683	56.8
NET	\$ 45,477	\$ 60,793	\$ (15,316)	(25.2)

NOTE: Due to rounding, details may not add to totals.



GENERAL EXCISE AND USE TAXES

General excise and use taxes amounted to \$1,612.3 million, representing a decrease of 1.7% or \$27.7 million from a year ago, mainly due to increases in the filing thresholds for semiannually and quarterly tax filers. The decline of visitor arrivals following September 11, 2001 resulted in a 10.8% or \$10.6 million decrease in hotel rentals. General excise tax collections for retailing and for all other rentals also declined slightly. In contrast, the tax base for services and contracting grew 5.8% and 4.3%, respectively. The increase in services is partly attributable to the transfer of transportation service providers to the general excise tax from the public service company tax.

GENERAL EXCISE AND USE TAX BASE AND TAXES
FOR FISCAL YEARS ENDING JUNE 30, 2002 AND 2001
(In Thousands of Dollars)

SOURCE OF REVENUE	Rate	FY2002	FY2001	Difference	
				Amount	%
<u>TAX BASE</u>					
Retailing		\$ 17,250,136	\$ 17,471,726	\$ (221,590)	(1.3)
Services		6,554,010	6,194,922	359,088	5.8
Contracting		3,866,266	3,705,643	160,623	4.3
Hotel Rentals		2,185,361	2,450,104	(264,743)	(10.8)
All Other Rentals		3,885,473	3,928,291	(42,818)	(1.1)
All Others (4%)		<u>3,206,655</u>	<u>3,371,319</u>	<u>(164,665)</u>	<u>(4.9)</u>
Subtotal		\$ 36,947,901	\$ 37,122,005	\$ (174,104)	(0.5)
Sugar Processing		\$ 1,493	\$ 15,507	\$ (14,015)	(90.4)
Pineapple Canning		3,394	5,123	(1,729)	(33.7)
Producing		510,682	527,982	(17,299)	(3.3)
Manufacturing		594,033	612,030	(17,998)	(2.9)
Wholesaling		8,960,164	9,238,724	(278,561)	(3.0)
Use (1/2%)		4,812,396	5,058,762	(246,366)	(4.9)
Intermediary Services		344,724	372,414	(27,689)	(7.4)
Insurance Commissions		<u>1,157,035</u>	<u>818,601</u>	<u>338,433</u>	<u>41.3</u>
Subtotal		\$ 16,383,921	\$ 16,649,144	\$ (265,223)	(1.6)
TOTAL - ALL ACTIVITIES		<u>\$ 53,331,822</u>	<u>\$ 53,771,150</u>	<u>\$ (439,327)</u>	<u>(0.8)</u>
<u>TAX</u>					
Retailing	4.00%	\$ 690,005	\$ 698,869	\$ (8,864)	(1.3)
Services	4.00%	262,160	247,797	14,364	5.8
Contracting	4.00%	154,651	148,226	6,425	4.3
Hotel Rentals	4.00%	87,414	98,004	(10,590)	(10.8)
All Other Rentals	4.00%	155,419	157,132	(1,713)	(1.1)
All Other (4%)	4.00%	<u>128,266</u>	<u>134,853</u>	<u>(6,587)</u>	<u>(4.9)</u>
Subtotal		\$ 1,477,916	\$ 1,484,880	\$ (6,964)	(0.5)
Sugar Processing	0.50%	\$ 7	\$ 78	\$ (70)	(90.4)
Pineapple Canning	0.50%	17	26	(9)	(33.7)
Producing	0.50%	2,553	2,640	(86)	(3.3)
Manufacturing	0.50%	2,970	3,060	(90)	(2.9)
Wholesaling	0.50%	44,801	46,194	(1,393)	(3.0)
Use (1/2%)	0.50%	24,062	25,294	(1,232)	(4.9)
Intermediary Services	0.50%	1,724	1,862	(138)	(7.4)
Insurance Commissions	0.15%	<u>1,736</u>	<u>1,228</u>	<u>508</u>	<u>41.3</u>
Subtotal		\$ 77,870	\$ 80,381	\$ (2,511)	(3.1)
Unallocated*		<u>\$ 56,547</u>	<u>\$ 74,778</u>	<u>\$ (18,231)</u>	<u>(24.4)</u>
TOTAL - ALL ACTIVITIES		<u>\$ 1,612,333</u>	<u>\$ 1,640,039</u>	<u>\$ (27,705)</u>	<u>(1.7)</u>

* Included are collections from penalty and interest, assessments and corrections, delinquent collections, refunds, protested payments, settlements, etc.

NOTE: Due to rounding, details may not add to totals.

TRANSIENT ACCOMMODATIONS TAX

Collections from transient accommodations tax (TAT) were down 11% to \$157.6 million. The hotel industry struggled with a post-9/11 decline in the number of visitors to the state. In fiscal year 2002, visitor arrivals declined 12.4%.¹

TRANSIENT ACCOMMODATIONS TAX (In Thousands of Dollars)

	FY2002	FY2001	Difference	
			Amount	%
Trans. Accom./Time Share Occ. Tax	\$ 157,634	\$ 177,164	\$ (19,530)	(11.0)
Trans. Accom./Time Share Occ. Fees	9	10	(0)	(4.6)
Subtotal	\$ 157,644	\$ 177,174	\$ (19,530)	(11.0)
Counties Share	70,620	79,370	(8,749)	(11.0)
Tourism Special Fund	59,743	67,145	(7,402)	(11.0)
Net Addition to General Fund	\$ 27,280	\$ 30,659	\$ (3,379)	(11.0)

NOTE: Due to rounding, details may not add to totals.

FUEL AND MOTOR VEHICLE TAXES

Fuel consumption fell 2.6% or 26.2 million gallons as compared to the previous year. The decrease can be mainly explained by a 10.5% or 40.0 million gallon decline in aviation fuel consumption resulting from fleet grounding immediately after 9/11 and reduced from slower tourism. Other major components of fuel consumption experienced a minor increase: a 1.3% increase in gasoline, a 3.7% growth in diesel oil for non-highway use, and a 6.6% rise in diesel oil for highway use. An environmental tax of five cents is imposed on each barrel of petroleum sold by a distributor to any retail dealer or end user other than a refiner of petroleum taxes. A total of 35.7 million barrels of petroleum was subject to the environmental tax in fiscal year 2002, representing a drop of 2.4% from last year.

Tax revenues from fuel consumption are allocated to various special funds. For fiscal year 2002, a total of \$73.3 million of state fuel tax revenues were distributed to the state highway fund. In addition to fuel tax revenues, total collections from state motor vehicle weight taxes and registration fees and state rental motor vehicle and tour vehicle surcharge taxes are also deposited to the state highway fund. Revenues from motor vehicle taxes and fees amounted to \$44.5 million while collection from rental vehicle taxes totaled \$36.1 million in fiscal year 2002. Rental vehicle tax collection decreased by 6.7% due to lower tourism activity.

¹ Visitor arrivals figures are from Hawaii State Department of Business, Economic Development and Tourism – Research and Economic Analysis Division.

The boating special fund received \$1.4 million from state and county fuel tax revenues in fiscal year 2002, which is 1% of state and county fuel taxes net of aviation fuel taxes. The state airport fund collects all the tax revenues from aviation fuel, which amounted to \$3.5 million in fiscal year 2002. As compared with \$3.8 million of fiscal year 2001, aviation fuel tax revenues fell 10.5%. Total collection from the environmental response tax was \$1.8 million, which is deposited to the environmental response revolving fund. A total of \$64.8 million of county fuel tax revenues was allocated to the county highway funds.

GALLONS OF FUEL CONSUMED
(In Thousands of Gallons)

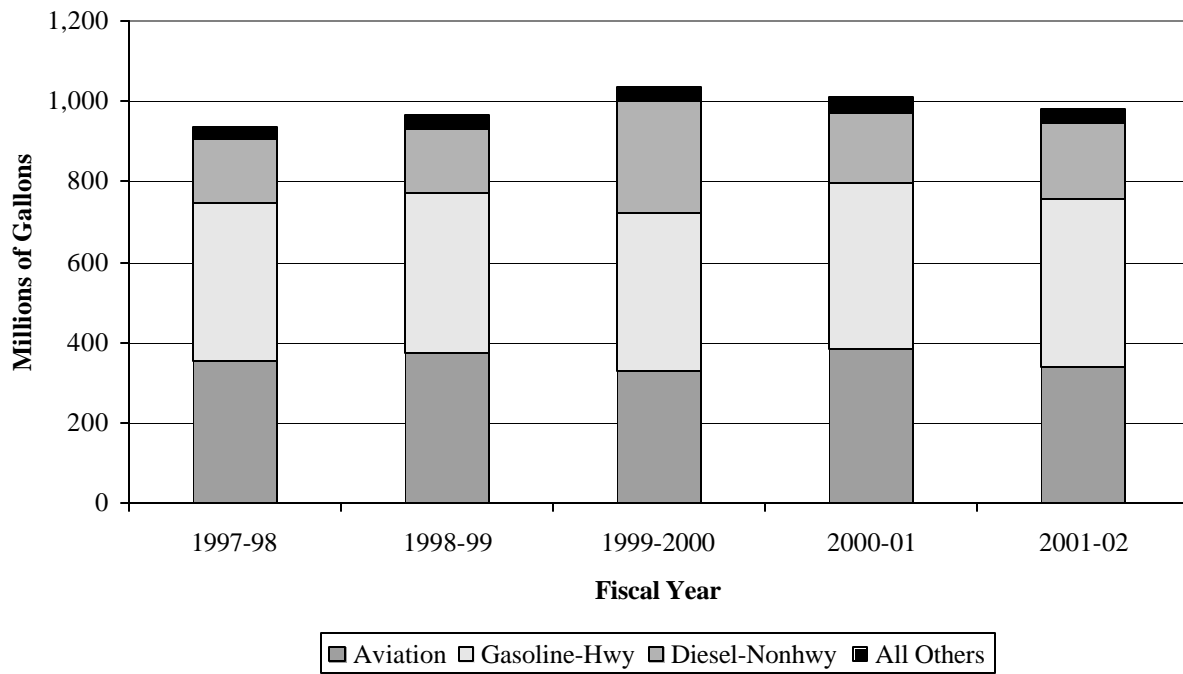
	FY2002	FY2001	Difference	
			Amount	%
Gasoline	416,820	411,309	5,511	1.3
Diesel Oil - Nonhighway	184,960	178,390	6,570	3.7
Diesel Oil - Highway	34,686	32,550	2,135	6.6
Liq. Pet. Gas - Off Highway	2,916	3,320	(404)	(12.2)
Liq. Pet. Gas - Highway	263	322	(59)	(18.4)
Small Boats - Gasoline	7	5	1	22.1
Small Boats - Diesel Oil	48	30	18	61.4
Aviation Fuel	341,820	381,839	(40,018)	(10.5)
Other Fuel *	3	-	3	nm
Total Gallons	981,522	1,007,766	(26,243)	(2.6)
Environmental Tax (Barrel)	35,676	36,535	(859)	(2.4)

* Includes ethanol, methanol, biodiesel.

nm = not meaningful.

NOTE: Due to rounding, details may not add to totals.

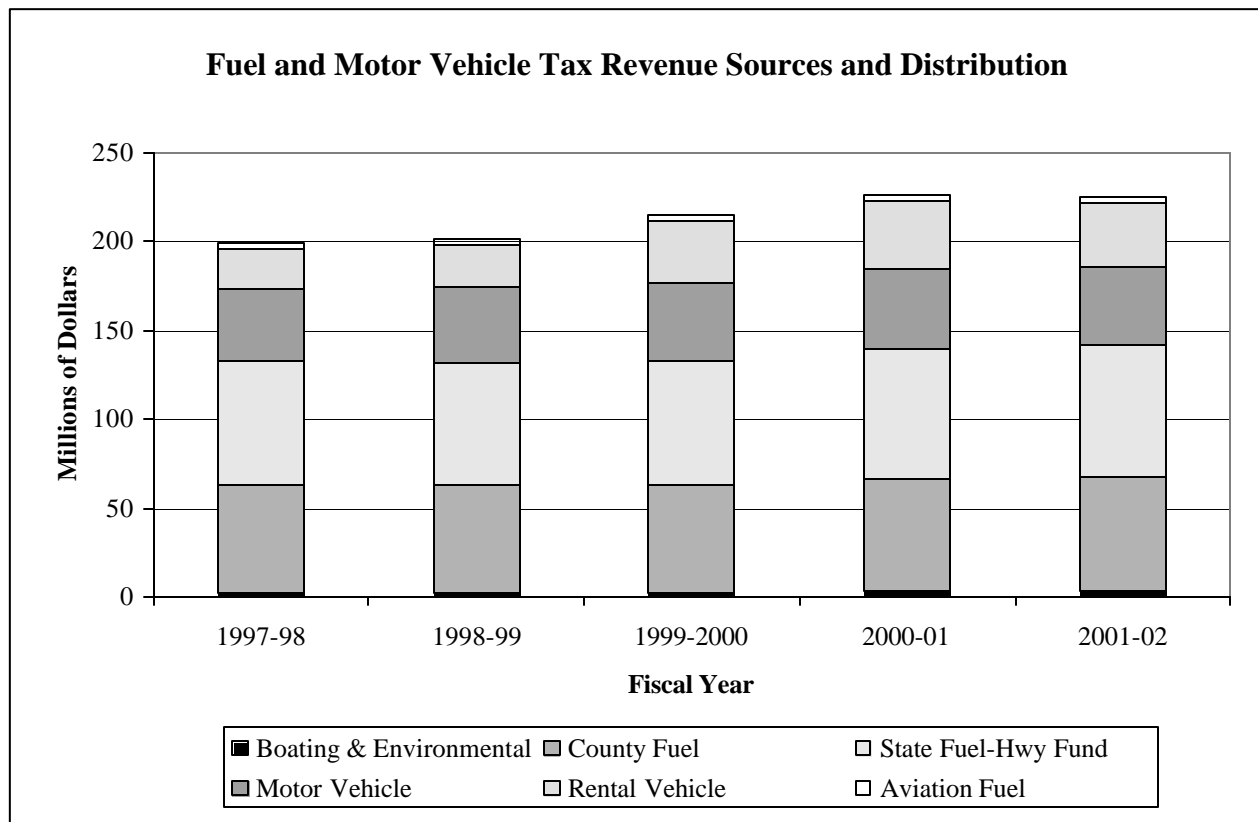
Trends in Fuel Consumption Tax Base



ALLOCATION OF FUEL TAXES
(In Thousands of Dollars)

	FY2002	FY2001	Difference	
			Amount	%
STATE HIGHWAY FUND				
Gasoline	\$ 65,886	\$ 64,871	\$ 1,015	1.6
Diesel Oil - Nonhighway	1,831	1,766	65	3.7
Diesel Oil - Highway	5,494	5,441	53	1.0
Liq. Pet. Gas - Off Highway	29	33	(4)	(12.2)
Liq. Pet. Gas - Highway	24	35	(11)	(31.8)
Subtotal	\$ 73,264	\$ 72,146	\$ 1,118	1.5
Motor Vehicle	44,548	44,716	(169)	(0.4)
Rental Vehicle	36,054	38,633	(2,579)	(6.7)
TOTAL	\$ 153,866	\$ 155,496	\$ (1,630)	(1.0)
COUNTY HIGHWAY FUNDS				
City & County of Honolulu	\$ 46,729	\$ 46,078	\$ 651	1.4
County of Maui	8,070	7,914	157	2.0
County of Hawaii	6,498	6,392	106	1.7
County of Kauai	3,523	3,491	32	0.9
TOTAL	\$ 64,821	\$ 63,876	\$ 945	1.5
BOATING SPECIAL FUND	\$ 1,395	\$ 1,374	\$ 21	1.5
STATE AIRPORT FUND				
Aviation Fuel	\$ 3,418	\$ 3,818	\$ (400)	(10.5)
ENVIRONMENTAL TAX FUND	\$ 1,784	\$ 1,827	\$ (43)	(2.4)

NOTE: Due to rounding, details may not add to totals.



FUEL TAX RATES PER GALLON¹

	State	County	Total
GASOLINE AND DIESEL OIL (HWY. USE)²			
City & County of Honolulu	16.0 ¢	16.5 ¢	32.5 ¢
County of Maui	16.0	13.0	29.0
County of Hawaii	16.0	8.8	24.8
County of Kauai	16.0	13.0	29.0
LIQUID PETROLEUM GAS (HWY. USE)			
City & County of Honolulu	5.3 ¢	5.4 ¢	10.7 ¢
County of Maui	5.3	4.3	9.6
County of Hawaii	5.3	2.9	8.2
County of Kauai	5.3	4.3	9.6
ENVIRONMENTAL RESPONSE TAX (per barrel)			
All Counties	5.0 ¢	- ¢	5.0 ¢

¹ Gasoline used for agricultural equipment off highways, aviation fuel, and all other fuels used off highways are taxed by the State at 1 cent per gallon.

² Includes 1 cent State license tax on diesel oil.

PUBLIC SERVICE COMPANY TAXES

Public service company taxes, including penalty and interest, contracted by 30.6% to \$93.4 million. The decline can be explained by Act 64, SLH 2001, and Act 9, Third Special Session, SLH 2001. Beginning on July 1, 2001, Act 64 provides that the portion of the public utility tax collected at a tax rate above 4% be paid directly to those counties that establish by ordinance an exemption from the real property tax for public service companies. Beginning on October 1, 2001, Act 9 requires certain transportation service providers to pay the general excise tax instead of the public service company tax. In fiscal year 2002, collections from public utilities totaled \$85.8 million while payments by transportation service providers totaled \$6.1 million.

PUBLIC SERVICE COMPANY TAXES (In Thousands of Dollars)

	FY2002	FY2001	Difference	
			Amount	%
Public Service Company Taxes	\$ 91,907	\$ 133,890	\$ (41,982)	(31.4)
Penalty & Interest	1,499	693	805	116.1
TOTAL	<u>\$ 93,406</u>	<u>\$ 134,583</u>	<u>\$ (41,177)</u>	<u>(30.6)</u>

NOTE: Due to rounding, details may not add to totals.

ESTATE AND TRANSFER TAXES

During fiscal year 2002, a total of 552 estates were settled, of which 409 were taxable. Collections from the estate tax amounted to \$16.6 million as compared to \$17.5 million in the previous year.

ESTATE AND TRANSFER TAXES (In Thousands of Dollars)

	FY2002	FY2001	Difference	
			Amount	%
Estate Tax	\$ 16,554	\$ 17,456	\$ (902)	(5.2)
Penalty & Interest	70	85	(15)	(17.5)
TOTAL	<u>\$ 16,624</u>	<u>\$ 17,541</u>	<u>\$ (917)</u>	<u>(5.2)</u>

NOTE: Due to rounding, details may not add to totals.

OTHER TAXES

Total revenues from miscellaneous taxes were down 4.7% to \$302.1 million. This was largely due to a \$29.3 million drop in employment security contributions resulting from a lower tax rate. A \$4.2 million drop in the insurance premiums tax, which is a result of the high technology business investment tax credit, also reduced revenues.

Tobacco tax collections experienced a growth of \$10.5 million, as a result of the Cigarette Tax Stamp Act (Act 249, SLH 2000). Act 249 established a mandatory cigarette tax stamp system as a means to assess, collect, and enforce the cigarette tax. Beginning on April 1, 2001, cigarette packages without stamps could not be sold. Thus, the sharp jump in tobacco tax collections was the consequence of stamp tax and its enforcement for all of the fiscal year 2002. Tax collections from banks and other financial corporations were up by \$7.5 million. This contrasts with the previous fiscal year when net franchise receipts from banks and financial corporations ended with a negative balance because refunds exceeded collections.

MISCELLANEOUS TAXES*

(In Thousands of Dollars)

	FY2002	FY2001	Difference	
			Amount	%
Banks & Other Financial Corp.	\$ 7,164	\$ (294)	\$ 7,457	nm
Conveyance	9,820	10,509	(688)	(6.6)
Empl. Security Contributions	111,908	141,187	(29,279)	(20.7)
Insurance Premiums	67,941	72,113	(4,172)	(5.8)
Liquor & Permits	39,091	37,783	1,308	3.5
Tobacco & Licenses	65,547	55,074	10,473	19.0
General Excise Licenses & Fees	587	582	5	0.9
TOTAL	\$ 302,056	\$ 316,953	\$ (14,897)	(4.7)

* Includes allocation to special funds.

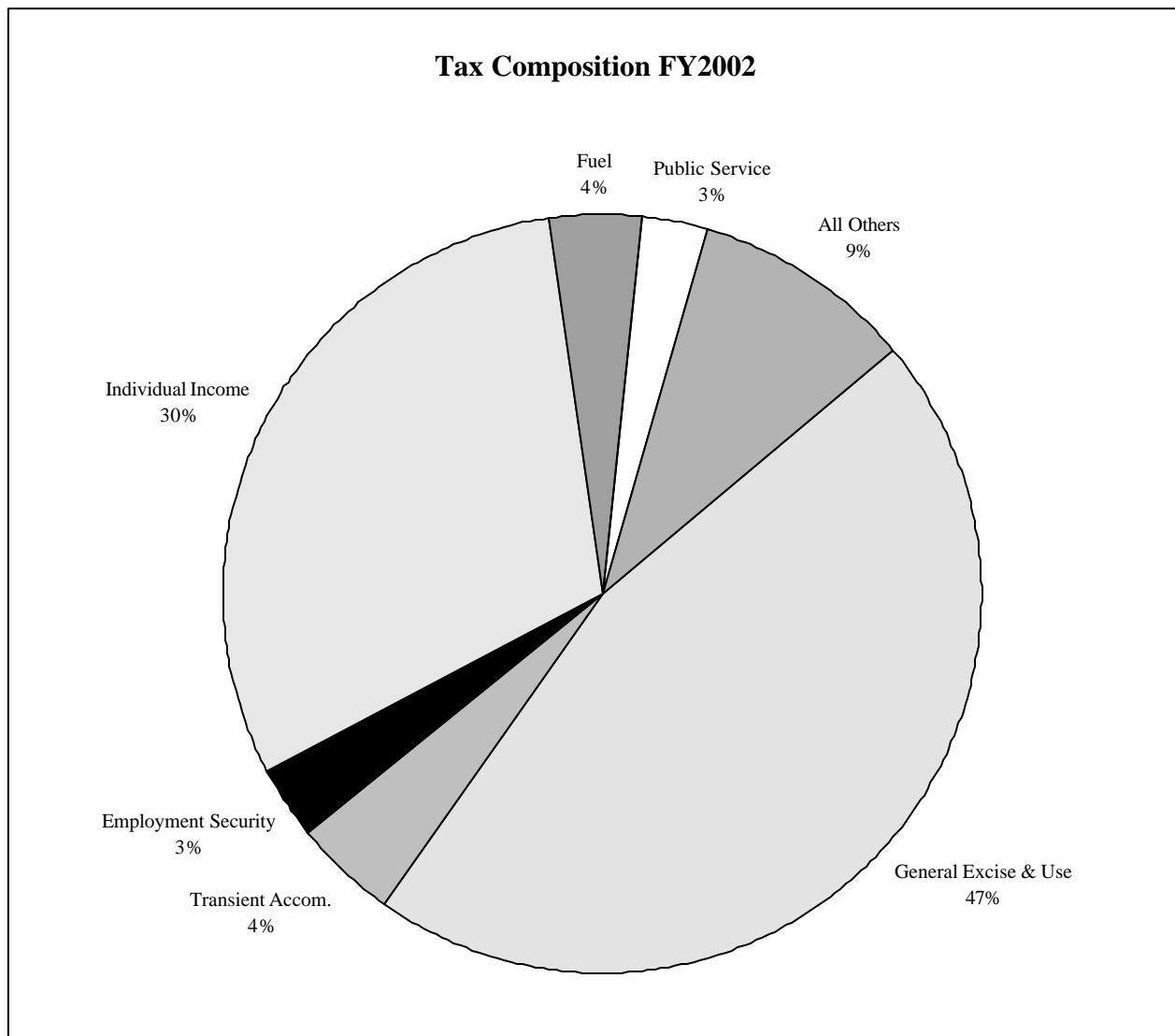
nm = not meaningful.

NOTE: Due to rounding, details may not add to totals.

COLLECTION AND ACCOUNTING OF TAXES

TAX COLLECTIONS

Net tax collections fell from \$3,678.4 million to \$3,524.4 million, representing a 4.2% drop. The Department of Taxation collected about 97% of the net tax collections in fiscal year 2002. The remaining portion was collected by the following agencies: the Department of Commerce and Consumer Affairs, \$67.9 million in insurance premium taxes; the Department of Land and Natural Resources, \$9.8 million in conveyance taxes; and the counties, \$42.9 million in state motor vehicle weight taxes and registration fees.



TAX COLLECTIONS

SOURCE OF REVENUE	FY2002		FY2001	
	Amount Collected	% of Total	Amount Collected	% of Total
Banks - Financial Corps.	\$ 7,163,569	0.2	\$ (293,743)	(0.0)
Conveyance	9,820,207	0.3	10,508,686	0.3
Employment Security Contributions	111,907,876	3.2	141,187,227	3.8
Fuel	144,683,499	4.1	143,041,756	3.9
General Excise & Use	1,612,333,427	45.7	1,640,038,830	44.6
Income - Corporations	45,476,813	1.3	60,792,656	1.7
Income - Individuals	1,071,590,823	30.4	1,104,819,257	30.0
Inheritance and Estate	16,624,283	0.5	17,541,004	0.5
Insurance Premiums	67,940,550	1.9	72,112,632	2.0
Liquor & Permits	39,090,536	1.1	37,782,635	1.0
Motor Vehicle Tax *	80,602,003	2.3	83,349,817	2.3
Public Service Companies	93,405,754	2.7	134,582,884	3.7
Tobacco & Licenses	65,546,890	1.9	55,073,840	1.5
Trans. Accom. Tax	157,634,488	4.5	177,164,186	4.8
All Others	606,856	0.0	704,440	0.0
TOTAL	\$3,524,427,575	100.0	\$3,678,406,107	100.0

* Includes Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Mtr. Vehicle Inspection, Rental Vehicle Registration Fees, and Rental Vehicle Surcharge Tax.

NOTE: Due to rounding, details may not add to totals.

DISTRIBUTION OF TAXES

Of the total \$3.5 billion in tax revenues collected, \$3.1 billion, or 86.5%, was deposited into the state general fund. The counties received \$135.4 million, or 3.8%, from county fuel taxes and transient accommodations taxes. The remaining \$340.5 million was allocated to state special funds. The State Highway Fund received the largest portion, \$153.9 million. A total of \$111.9 million of the employment security contributions transferred to the Unemployment Trust Fund, which was the second largest distribution. The third largest distribution of \$59.7 million went to the Tourism Special Fund from transient accommodations taxes.

Effective in July 1, 2001, revenue distributions to two of the special funds were changed. The amount of the allocation to the Compliance Resolution Fund from the franchise tax on financial institutions decreased from \$2.5 million to \$2.0 million (Act 28, SLH 2001). Act 133, SLH 1999 restored the 25% share of conveyance taxes to the Rental Housing Fund.

In fiscal year 2002, there were three new special funds. Act 270, SLH 2001 distributes 1.5% of cigarette stamp fee to the Cigarette Tax Stamp Enforcement Special Fund and 0.2% to the Cigarette Tax Stamp Administrative Special Fund. These two Cigarette Tax Stamp Special Funds received a total of \$1.1 million. The School Minor Repairs and Maintenance Special Fund received \$0.1 million from taxpayers who chose to contribute from their individual income tax refunds (Act 311, SLH 2001).

DISTRIBUTION OF COLLECTIONS

	FY2002		FY2001	
	Amount Collected	% of Total	Amount Collected	% of Total
STATE FUND				
State General	\$ 3,048,530,375	86.5	\$ 3,157,659,577	85.8
State Highway	153,867,797	4.4	155,496,850	4.2
State Airport	3,418,200	0.1	3,818,387	0.1
Boating Special Fund	1,394,815	0.0	1,373,966	0.0
Environmental Fund	1,783,813	0.1	1,826,746	0.0
Cigarette Stamp Admin/Enf. Fund	1,077,744	0.0	-	-
Compliance Resolution Fund	2,000,000	0.1	2,500,000	0.1
Unemployment Trust	111,907,876	3.2	141,187,227	3.8
Election Campaign Fund	244,664	0.0	212,190	0.0
Tourism Special Fund	59,743,471	1.7	67,145,226	1.8
Rental Housing Fund	2,455,052	0.1	1,313,586	0.0
Natural Area Reserve Fund	2,455,052	0.1	2,627,172	0.1
School Repairs & Maintenance Fund	107,590	0.0	-	-
Subtotal - State	\$ 3,388,986,448	96.2	\$ 3,535,160,927	96.1
REVENUES TRANSFERRED TO COUNTIES				
Fuel	64,820,877	1.8	63,875,624	1.7
Trans. Accom. Tax	70,620,251	2.0	79,369,555	2.2
Subtotal - Counties	\$ 135,441,128	3.8	\$ 143,245,179	3.9
TOTAL	\$ 3,524,427,575	100.0	\$ 3,678,406,107	100.0

NOTE: Due to rounding, details may not add to totals.

BRIEF SUMMARY OF HAWAII'S TAX SYSTEM

Two notable characteristics of Hawaii's tax structure are the high degree of centralization at the state level and the broad-based nature of its primary revenue source, the general excise tax. Hawaii's general excise tax is imposed on most sales of goods and services. Some transactions are exempted because they are subject to other taxes or because the legislature wished to encourage certain economic activities.

Hawaii offers a variety of income tax credits for qualified individuals and businesses. The most common tax credits claimed by individuals include the low-income credit, the renter's credit, the dependent care credit, the energy device credit, and the child passenger restraint credit. The low-income credit, which is available to residents with income of not more than \$20,000, is a credit that gradually phases out as income increases. The renter's credit, which is available to residents with income under \$30,000, is a flat \$50 credit per qualified exemption. Like its federal counterpart, Hawaii's dependent care credit reimburses a portion of expenses paid to care for qualified dependents in order to allow the taxpayer to hold gainful employment. The energy

device credit is available to taxpayers who purchase qualified alternate energy devices. A flat \$25 credit per return is available to individuals who purchase qualified child passenger restraint systems. The most common credit claimed by businesses is the capital goods excise tax credit.

Hawaii has seventeen separate tax laws, of which fourteen are administered by the state. The remaining three – real property tax, motor vehicle weight tax, and public utility franchise tax – are administered by the counties. Until July 1, 1981, the real property tax law was administered by the state, with revenue from this source accruing to the counties. At present, the counties administer all of the real property functions. Administration of the state and county motor vehicle weight taxes is vested in the counties with the revenue accruing to the state and county highway funds.

Revenues from eleven of the state-administered taxes go into the state's general fund and are used to provide government services. Although the fuel tax is administered by the state, it is a source of revenue for both the state and county highway funds. The employment security tax is a dedicated tax used exclusively to provide benefits to cover unemployed workers. Rental motor vehicle and tour vehicle surcharge taxes are deposited into the state highway fund.

STATE GENERAL FUND

SOURCE OF REVENUE	FY2002		FY2001	
	Amount Collected *	% of Total	Amount Collected *	% of Total
Banks - Financial Corps.	\$ 5,163,569	0.2	\$ (2,793,743)	(0.1)
Conveyance	4,910,103	0.2	6,567,929	0.2
General Excise & Use	1,612,333,427	52.9	1,640,038,830	51.9
Income - Corporations	45,476,813	1.5	60,792,656	1.9
Income - Individuals	1,071,238,569	35.1	1,104,607,067	35.0
Inheritance and Estate	16,624,283	0.5	17,541,004	0.6
Insurance Premiums	67,940,550	2.2	72,112,632	2.3
Liquor & Permits	39,090,536	1.3	37,782,635	1.2
Public Service Companies	93,405,754	3.1	134,582,884	4.3
Tobacco & Licenses	64,469,147	2.1	55,073,840	1.7
Trans. Accom. Tax	27,270,766	0.9	30,649,404	1.0
All Others	606,857	0.0	704,440	0.0
TOTAL	\$ 3,048,530,375	100.0	\$ 3,157,659,577	100.0

* Net of transfers to special funds.

NOTE: Due to rounding, details may not add to totals.

OUTLINE OF THE HAWAII TAX SYSTEM AS OF JULY 1, 2002

Issued by the Department of Taxation

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(1) Net Income Chapter 235 — Section 235-1 to 235-130	For taxable years beginning after December 31, 2001, the tax rates for individuals as well as estates and trusts range from 1.4% to 8.25% of taxable income. The allowable standard deduction amounts vary by filing status. The standard deduction amount for married filing joint return or surviving spouse with dependent child is \$1,900; single is \$1,500; head of household is \$1,650; and married filing separately is \$950. Tax rates for corporations are 4.4% up to \$25,000, 5.4% over \$25,000 but not over \$100,000, and 6.4% over \$100,000 of taxable income.	Returns due 20th day of 4th month following the close of taxable year. Withholding returns due monthly on or before the 15th day of the following calendar month. When the total tax liability is less than \$5,000 for the calendar year, returns may be filed quarterly on or before the 15th day of the month after the close of each quarter. For employers whose liability for taxes withheld exceeds \$100,000 a year, withholding returns due monthly on or before the 10th day of the following calendar month. An annual employer's return and reconciliation of Hawaii income tax withheld, Form HW-3, must be filed together with a duplicate copy of each employee's tax statement, Form HW-2, on or before the last day of February following the close of the calendar year. Estimates of income of individuals not subject to withholding, estates, trusts, and corporations, April 20th.	In general, at time of filing returns. Estimates of individuals, estates, trusts, and corporations, one-quarter, April 20th; June 20th; September 20th; and January 20th.
(2) Estate and Transfer (for decedents dying after 6/30/83) Chapter 236D — Section 236D-1 to 236D-18	Every resident decedent is taxed on transfer of taxable estate equal to federal credit for estate death taxes allowed by IRC section 2011. Credit is allowed for death tax imposed by another state not qualified by reciprocal provision. For nonresident decedent, tax is based on transfer of taxable estate located in Hawaii by use of ratio. Exemption afforded resident estate equally applicable to nonresident, with certain exceptions. For generation-skipping transfers after June 30, 1994, a tax in an amount equal to the federal credit is imposed on every generation-skipping transfer of (1) property located in Hawaii and (2) property from a resident trust.	Report (Form M-6) must be filed by person responsible for filing federal Estate Tax Return (federal Form 706). No report required and no tax due when federal Form 706 not required. To obtain release of property, file Request for Release (Form M-6A). Report (Form M-6GS) must be filed by person responsible for filing Generation-Skipping Transfer Tax Return for Distributions (federal Form 706GS(D)) or Generation-Skipping Transfer Tax Return for Terminations (federal Form 706GS(T)).	On or before the due date for filing federal Form 706, including extensions of time; provided extension is submitted to Hawaii within 30 days of issuance. On or before the due date for filing federal Form 706GS(D) or 706GS(T), including extensions of time; provided extension is submitted to Hawaii within 30 days of issuance.
(3) General Excise (Gross Income) Chapter 237 — Section 237-1 to 237-49	This is a business privilege tax measured by gross proceeds of sales or gross income. The tax rate is 1% of 1% on wholesaling and intermediary services, producing, sugar processing and pineapple canning; all other activities (retailing business and professional services, contracting, theatre, amusement, radio, interest, commissions, rentals) are taxed at 4%, except insurance commissions received by general agents, subagents and solicitors who are taxed at .15%. Beginning January 1, 2000, the wholesale tax treatment is expanded to more goods and services transactions. Qualifying transactions will be taxed at 3.5% in calendar year 2000, and will be reduced by 0.5% each January 1st until a 0.5% rate is fully phased-in on January 1, 2006. The licensing fee for general excise tax licensees and nonprofit organizations is a one-time fee of \$20.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$4,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year.	At time of filing returns.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(4) Transient Accommodations Tax Chapter 237D — Section 237D-1 to 237D-16	This is a tax levied on the furnishing of a room, apartment, suite, or the like which is customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, hotel, or other place in which lodgings are regularly furnished to transients for consideration. The tax is imposed at the rate of 7.25%. The registration fee for transient accommodations operators is a one-time fee of \$5 for each registration consisting of 1 to 5 units and \$15 for 6 or more units. Effective January 1, 1999, the transient accommodations tax of 7.25% is imposed on the fair market rental value of time share vacation units.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$4,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year.	At time of filing returns.
(5) Use Chapter 238 — Section 238-1 to 238-16	This is an excise tax levied on tangible personal property which is imported or purchased from an unlicensed seller for use in the State. The tax is based upon the purchase price or value of the tangible personal property purchased or imported, whichever is applicable. Rates: 1/2 of 1%, if for resale at retail; 4%, if for use or consumption. For exceptions, see sections 238-3 and 238-4. The use tax is imposed on the value of services or contracting that are performed by an unlicensed seller at a point outside the State and imported or purchased for use in the State, effective for use taxes accruing after December 31, 1999.	Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$4,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year. These returns have been consolidated with the general excise (gross income) tax returns and are filed simultaneously.	At time of filing returns.
(6) Public Service Company Chapter 239 — Section 239-1 to 239-13	Nature of Tax—Public utility business in lieu of general excise tax. (a) Measurement of assessment—general rule: Gross income from public utility business of public utilities for preceding calendar year. For exception, see section 239-9. (b) Rates: (i) Gross income from passenger fares for transportation between points on a scheduled route by a carrier of passengers, 5.35%. (ii) Sale of its products or services to another public utility which resells such products or services, 1/2 of 1%. (iii) All other revenues: 4% of gross income. Beginning with January 1, 2001 filings, the sale of telecommunications services by a public utility to an interstate or foreign telecommunications services provider that is subject to the general excise tax and that resells the services to retail customers, is subject to a 5.5% PSC tax rate, reduced by 0.5% each January 1st until a 0.5% rate is fully phased-in on January 1, 2007. Act 9, Third Special Session Laws of Hawaii 2001, imposes the general excise tax rather than the public service company tax on transportation service providers for gross income received on or after October 1, 2001.	Returns filed on or before the 20th day of the 4th month following the close of the taxable year, based upon operations of the preceding taxable year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th, and 8th month thereafter. If the total tax liability for the taxable year exceeds \$100,000, 1st installment on or before the 10th day of the 1st month. Remaining installments due on or before the 10th day of each calendar month thereafter.
(7) Banks, Building and Loan, Financial Services Loan Companies and Certain Other Financial Corporations Chapter 241 — Section 241-1 to 241-7	(1)(a) Assessment Date: January 1. (b) Nature of Tax: a franchise tax (in lieu of net income and general excise taxes) on banks, building and loan associations, development companies, financial corporations, financial services loan companies, trust companies, mortgage loan companies, financial holding companies, small business investment companies, or subsidiaries not subject to the tax imposed by chapter 235. (2) Measure of Assessment: Net income for the preceding year from all sources as defined by chapter 235 (Income Tax Law) with modifications. (3) Rate: 7.92% of taxable income.	Returns filed on or before the 20th day of the 4th month following the close of the taxable year, based upon operations of the preceding taxable year.	First installment at the time of filing return, or, on or before the 20th day of the 4th month. Other installments due on the 20th day of the 2nd, 5th and 8th month thereafter. If the total tax liability for the taxable year exceeds \$100,000, 1st installment on or before the 10th day of the 1st month. Remaining installments due on or before the 10th day of each calendar month thereafter.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
(8) Fuel Chapter 243 — Section 243-1 to 243-16	Distributors, as defined, are required to pay: 1c per gallon on aviation fuel; an initial 1c per gallon on diesel oil, alternative fuels for operation of an internal combustion engine and from 24.8c to 32.5c per gallon on liquid fuels other than the foregoing; also, pay additional taxes from 24.8c to 32.5c per gallon on diesel oil and at the rates specified below per gallon on alternative fuels used to operate motor vehicles upon the public highways, however, they are not required to pay these additional taxes if purchasers furnish Exemption Certificates, Form M-38. Refunds of liquid fuel used for agricultural equipment not operated upon the public highways or diesel oil and alternative fuels used for motor vehicles not operated upon the public highways may be claimed on Form M-38. Distributors are required to register and be licensed. Licenses are valid until revoked. An Environmental Response Tax of 5c per barrel or a fractional part of a barrel of petroleum product sold by a distributor to a retail dealer or end user is also imposed. Effective for taxable years beginning after December 31, 2001, the fuel tax is adjusted to reflect the energy content of alternative fuels as follows: ethanol- 0.29 times the rate for diesel; methanol- 0.22 times the rate for diesel; biodiesel- 0.50 times the rate for diesel; alternative fuels- 0.33 times the rate for diesel; and for other alternative fuels, the rate is based on the energy content of the fuels as compared to diesel fuel, using a lower heating value of 130,000 BTUs per gallon as a standard for diesel, so that the tax rate, on an energy content basis, is equal to half the rate for diesel fuel.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(9) Liquor Chapter 244D — Section 244D-1 to 244D-17	This is a gallonage tax imposed upon "dealers" as defined in the law and certain others who sell or use liquor. A \$2.50 liquor tax permit is required and must be renewed before July 1st of each year. See section 244D-4 for exemption from tax. The tax rates per wine gallon are \$5.98 on distilled spirits, \$2.12 on sparkling wine, \$1.38 on still wine, \$85 on cooler beverages, \$93 on beer other than draft beer, and \$54 on draft beer.	Returns are due monthly on or before the last day of the following month.	At time of filing returns.
(10) Cigarette and Tobacco Chapter 245 — Section 245-1 to 245-63	"Wholesalers" and "dealers" as defined in the law must pay an excise tax on sale or use of tobacco products equal to 40% of the wholesale price and a fixed tax rate of 5c on each cigarette sold, used, or possessed. A \$2.50 tobacco tax license is required and must be renewed before July 1st of each year. Effective January 1, 2001, cigarette and tobacco wholesalers and dealers are required to affix stamps to individual cigarette packages as proof of payment of cigarette taxes. Act 245, Session Laws of Hawaii 2002, increases the cigarette excise tax from 5c for each cigarette sold, used, or possessed to 6c after September 30, 2002; 6.5c after June 30, 2003; and 7c after June 30, 2004.	Returns are due monthly on or before the last day of the following month.	At time of filing returns. Cigarette tax paid through the purchase of cigarette tax stamps by licensees.
(11) Conveyance Chapter 247 — Section 247-1 to 247-13	This tax is imposed on all documents transferring ownership or interest in real property. The rate is 10c per \$100 of the actual and full consideration paid or to be paid. Minimum \$1 tax for each taxable transaction. (Documents of certain conveyances are exempted.)	A certificate of conveyance must be filed with the document at the Bureau of Conveyances within 90 days after a taxable transaction; a claim for exemption from the conveyance tax must be filed for certain exempt conveyances.	At time of filing the certificate, but no later than 90 days after the taxable transaction.

KIND OF TAX & LEGAL REFERENCES (HAWAII REVISED STATUTES)	MEASURE AND RATE OF TAX	REPORTS	TAX PAYABLE
<p>(12) Rental Motor Vehicle and Tour Vehicle Surcharge Tax</p> <p>Chapter 251 — Section 251-1 to 251-15</p>	<p>There is a rental motor vehicle surcharge tax of \$3 a day or any portion of a day that a rental motor vehicle is rented or leased. The tax is levied on the lessor. There is also a tour vehicle surcharge tax of \$65 per month for each tour vehicle in the 25 passenger seat and over category and \$15 per month for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. There is a one-time \$20 registration fee.</p>	<p>Monthly returns are due on or before the last day of the following month. When the total tax liability does not exceed \$4,000 for the calendar or fiscal year, returns may be filed quarterly on or before the last day of the month after the close of each quarter. When the total tax liability does not exceed \$2,000 for the calendar or fiscal year, returns may be filed semiannually on or before the last day of the month after the close of each semiannual period. An annual summary and reconciliation return must be filed on or before the 20th day of the 4th month following the close of the taxable year.</p>	<p>At time of filing returns.</p>
<p>(13) Unemployment Insurance</p> <p>Chapter 383 — Section 383-1 to 383-176</p>	<p>This is a tax on wages paid by employing units with 1 or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. Each year, 1 of 8 contribution schedules is applicable depending on the condition of the UI Trust Fund. An employer's contribution rate is not less than 0.00% or greater than 5.4%.</p> <p>There is also an additional employment and training (E & T) fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .01%. The E & T assessment is applicable to all employing units with unemployment insurance contribution rates greater than 0.00% and less than 5.4%.</p> <p>There is a limitation of the tax on wages paid to an employee called the "tax base". The tax base represents 100% of the state's average annual wages reported by employers contributing to the unemployment trust fund.</p>	<p>On a quarterly basis, employers submit Form UC-B6 "Quarterly Wage, Contribution and Employment and Training Assessment Report." The report must be filed on or before the last day of the month following the report quarter.</p>	<p>At time of filing returns.</p>
<p>(14) Insurance Premiums</p> <p>Chapter 431 — Section 431-7-201 to 431-7-209</p>	<p>Tax on insurance companies (Underwriters) based on premiums received in Hawaii. In lieu of all taxes except property tax and taxes on the purchase, use or ownership of tangible personal property. Tax Rates: Life Insurance, 2.75%; Surplus Lines, 4.68%; Ocean Marine, .8775% on gross underwriting profit; and Other Insurance, 4.265%. To insurers who qualify, there is a 1% tax credit to facilitate regulatory oversight. This law is administered and the tax collected by the Insurance Commissioner, who is required to report to the Director of Taxation all amounts of taxes collected under this chapter.</p>	<p>Quarterly tax statement is due on or before the last day of the calendar month following the quarter in which the tax accrued. Annual Tax Statement is due on or before March 1 with the Insurance Commissioner.</p>	<p>At time of filing statements.</p>

COUNCIL ON REVENUES

Michael A. Sklarz, Chair
Paul H. Brewbaker, Vice Chair
Vito Galati
Rick von Gnechten
Warren H. Haruki
Pearl Imada Iboshi
Howard H. Karr

BOARDS OF REVIEW

FIRST TAXATION DISTRICT (OAHU)

Carol Rae Baptista
Dianne L. Y. Merritt
Curtis K. Saiki
Don I. Sakai

SECOND TAXATION DISTRICT (MAUI)

Alan K. Bernaldo
Randolph R. Cabanilla
Mimi S. J. Hu
Eugene F. Simon

THIRD TAXATION DISTRICT (HAWAII)

Gordon Y. Inaba
Bradley T. Kinoshita
Bert M. Wagatsuma
Richard George Withington
Fred T. Yamashiro

FOURTH TAXATION DISTRICT (KAUAI)

Jose R.S. Diogo
Sandra L. Howatt
Sandra I. Klutke
George M. Menor
Eduardo Topenio, Jr